United Nations

United Nations Relief and Works Agency for Palestine Refugees in the Near East

Financial report and audited financial statements

for the year ended 31 December 2017

and

Report of the Board of Auditors

General Assembly
Official Records
Seventy-third Session
Supplement No. 5D

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Report of the Board of Auditors

United Nations • New York, 2018

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ISSN 0257-0815

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Letter of transmittal

Letter dated 24 July 2018 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2017.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor-General of India
Chair of the Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which comprise the statement of financial position (statement I) as at 31 December 2017 and the statement of financial performance (statement II), the statement of changes in net assets/equity (statement III), the statement of cash flow (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2017, and its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNRWA, in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and the auditor's report thereon

The Commissioner-General of UNRWA is responsible for the other information which comprises the financial report for the year ended 31 December 2017 contained in chapter IV, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in so doing, consider whether it is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement in the other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

The Commissioner-General is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Agency's ability to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting, unless management either intends to liquidate the Agency or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Agency's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement where one exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNRWA to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Agency to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNRWA that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations of UNRWA and legislative authority.

In accordance with article VII of the Financial Regulations and Rules, we have also issued a long-form report on our audit of UNRWA.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
(Lead Auditor)

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

24 July 2018

Chapter II
Long-form report of the Board of Auditors

Summary

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) provides assistance and protection to more than 5 million registered Palestinian refugees to help them achieve their full potential in terms of human development. UNRWA employs approximately 31,042 area staff and 213 international staff at its five fields of operations in Gaza, Jordan, Lebanon, the Syrian Arab Republic and the West Bank, as well as at its headquarters in Amman and Gaza.

UNRWA is primarily funded through voluntary contributions. In 2017, total contributions were $1,207.44 million, of which voluntary contributions were $1,156.45 million (96 per cent), and total expenses amounted to $1,310.44 million.

The Board of Auditors audited the financial statements and reviewed the operations of UNRWA for the year ended 31 December 2017 in accordance with General Assembly resolution 74 (I) and in conformity with the International Standards on Auditing. The audit was carried out through the examination of financial transactions and operations at UNRWA headquarters in Amman and at its field offices in Jordan, Gaza, Lebanon, the Syrian Arab Republic and the West Bank.

Scope of the report

The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly; it has been discussed with UNRWA management, whose views have been appropriately reflected.

The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

The Board also reviewed UNRWA operations under financial regulation 7.5 of the Financial Regulations and Rules of the United Nations, which allows the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board examined four key UNRWA programmes: the health programme; the education programme; the relief and social services programme; and the infrastructure and camp improvement programme. The report also includes a brief commentary on the status of implementation of the recommendations made in previous years.

Audit opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of UNRWA as at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

The Board also issued a separate unqualified audit opinion on the financial statements of the UNRWA Area Staff Provident Fund for the year ended 31 December 2017, which were prepared in accordance with the International Financial Reporting Standards. In addition, the Board performed an annual audit of the Microfinance Department and issued an unqualified opinion on its financial statements for the year ended 31 December 2017.

Overall conclusion

UNRWA continues to experience financial difficulties in carrying out its mandate of serving the Palestine refugees. In 2017, the Agency carried forward a programme budget cash deficit of $49 million and has projected a further deficit of $397[1] million for the year 2018. Therefore, the projected overall deficit for the year 2018 is $446 million, including $49 million from the previous year. The increase in deficit is a result of suspended contributions amounting to $400 million from one of the major donors in respect of the years 2017 and 2018. This situation threatens the Agency's ability to deliver its core mandate to Palestine refugees. While the Agency continues with its effort to mobilize resources from various donors to curb the impact of the projected deficit, it also continues with the implementation of austerity measures aimed at substantially reducing non-core operations costs as a serving strategy. As a short-term solution, the Agency has requested advance payments from its donors to finance core operations for 2018. The Agency has also launched an internal campaign task force for resource mobilization. The Board considers the current financial situation as a loud call for the Agency to implement a robust monitoring tool to enforce the austerity measures in place, including quantification of the saving to be achieved and exploring all alternatives of funding potentials to widen the donor base.

In the operations and financial management, the Board identified deficiencies, highlighting the need for management intervention to bring about improvement in the areas of: human resource management, treasury and cash management, drugs management, travel management, procurement and contract management, programme and project management, and information and communications technology.

Key findings

The Board has identified a number of issues that need to be considered by management in order to enhance the effectiveness of UNRWA operations. In particular, the Board highlights the key findings set out below.

Human resources management

Salary increments and promotion granted without performance appraisal

(a) The Board found a lack of correlation between performance appraisal and staff salary increments and promotion. For example, 160 staff members were granted salary increments and 39 staff members were promoted without completing their performance evaluation for 2016, which implies that performance records are irrelevant. The Board considers that this practice can demoralize well-performing staff and is contrary to UNRWA area staff rules and area personnel directive No. PD/A/23, which require promotion and salary increments to be supported by performance evaluation.

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[1] The budget deficit of $397 million includes $194 million for the programme budget and $203 million for the Emergency Appeal Fund.

Management of subsidies

Double payment of cash assistance

(b) A total of $113.51 million payments made by the Syrian Arab Republic field office to 122,549 beneficiaries included 22 cases of double payments of cash assistance. The Board also noted inconsistence in recording data in the system whereby some beneficiaries were recorded with only the first name, some with two names and some with three names. The Board considers that the double payments noted indicate the inability of the emergency assistance management system to detect duplicate names and an inadequate verification process of registration whereby one family member was recorded as being in two families with different registration numbers and received cash assistance in both families.

Management of essential medicines and medical supplies

Price difference between the long-term agreement and the local market for Eightcheck control reagent

(c) The Board noted two purchase orders for Eightcheck reagents with different unit prices, whereby PO No. 5016004370 of 19 December 2016 raised by the Gaza field office to a local supplier has a unit price of $11.3, while PO No. 6017001289 of 22 October 2017 from headquarters in Amman through a long-term agreement for the same item has a unit cost of $33.1. This is a variation of $21.8 per unit, or 193 per cent higher than the price on the local market. The Board was informed that the prices of Eightcheck reagents under a long-term agreement include other services, such as supply of laboratory diagnostic instruments and reagents and maintenance and supply of spare parts for the instruments as agreed by the supplier in the long-term agreement. However, the Board considers that there is a need for transparency in the pricing of Eightcheck reagents by differentiating the price of the items from other components such as installation costs and maintenance and repair costs, which can be charged separately because they do not occur frequently as compared with the Eightcheck reagents which are frequently ordered and consumed. The Board also found that the Agency accepted Eightcheck reagents with a remaining shelf life of two months (64 per cent remaining shelf life) out of three months' shelf life from the date of manufacture, contrary to paragraph 9.1 of the UNRWA quality assurance policy for pharmaceutical products (2015), which requires acceptance of products with at least 75 per cent remaining shelf life.

Inadequate quality of medicines and medical supplies

(d) During its site visit to medical stores at the West Bank and Gaza field offices, the Board found a lack of an independent quality control testing mechanism for medicine and medical supplies. For example, 113,750 bottles of paracetamol suspension, 785,391 bottles of paracetamol syrup, 20,949 bottles of azithromycin suspension, and 6,861 bottles of Co-Amoxiclav oral suspension received by the field offices were subsequently identified as defective. Out of these defective medicines, 36,105 bottles of paracetamol suspension, 3,716 bottles of azithromycin suspension and 25,622 bottles of paracetamol syrup had already been consumed by the patients before it was detected that they were not of acceptable quality.

Department of Internal Oversight Services

Instability of the Department of Internal Oversight Services

(e) In its previous report (A/72/5/Add.4), the Board highlighted the high rate of staff turnover in the Department of Internal Oversight Services. In the year under review the Board noted limited improvement in this area. For example, from January to June 2017, only one out of four international staff (P-4) required under the organizational structure of the Assurance and Advisory Services Division was in post. That staff member was also acting as the Chief of the Division. In addition, over the previous five years, a total of five directors had been recruited to lead the department and, as at the time of audit in April 2018, the current director, who was recruited in November 2016, was also in the process of separating from the Agency. High staff turnover affects the completion of the annual workplan as, for the year 2017, the Assurance and Advisory Services Division completed only 11 (50 per cent) of 22 planned assignments. The backlog of assignments was carried over to 2018, whereby the whole of the first quarter of 2018 was used to complete the assignments carried over, instead of the tasks earmarked in the 2018 workplan.

Main recommendations

The Board has made several recommendations arising from its audit that are contained in the body of the report. The main recommendations are that UNRWA:

Human resources management

Salary increments and promotion without performance appraisal

(a) **Establish a linkage between salary increment and performance appraisal to ensure that staff with incomplete performance appraisals and unsatisfactory performance are not given annual salary increments or promotion.**

Management of subsidies

Double payment of cash assistance

(b) **(i) The Syrian Arab Republic field office should institute adequate controls of the registration database in the emergency assistance management system and update the database with accurate and up-to-date data to remove the multiple registrations of refugees; (ii) perform data verification of the distribution list before submitting it to the banks for payments; and (iii) recover double payments from the beneficiaries concerned from future distributions.**

Management of essential medicines and medical supplies

Price difference between the long-term agreement and local market for the Eightcheck reagents

(c) **(i) Review the long-term agreement and liaise with the supplier to separate the reagent price from other services price which do not occur frequently to increase transparency and reduce the unit cost of the items; and (ii) ensure compliance with the UNRWA quality assurance policy for pharmaceutical products by accepting medicine and medical supplies which have at least 75 per cent remaining shelf life at the time of arrival in the country of final destination.**

Inadequate quality of medicines and medical supplies

(d) **(i) Introduce independent quality control testing mechanism for medicine and medical supplies in field offices, as in the case of basic commodities, to ensure the quality of medicine and medical supplies received from suppliers, prior to acceptance; and (ii) include independent quality control testing at the point of pre-shipment and post-shipment in the quality assurance policy for pharmaceutical products.**

Department of Internal Oversight Services

Instability of the Department of Internal Oversight Services

(e) Consider exploring alternative resource deployment strategy to the Assurance and Advisory Services Division to strengthen the Division and ensure sufficient coverage of high-risk areas identified in the annual audit plan.

Key facts	
5.3 million	Population of Palestinian refugees served by UNRWA in 2017
$695.98 million	Wages, salaries and employee benefits in 2017
31,042	UNRWA area staff (local staff)
213 (136 regular budget and 77 extra budget)	UNRWA international staff
$243.70 million	Procurement cost in 2017
711 schools, 526,646 students and 17,888 teachers	$485.88 million spent in education programme in 2017
3.66 million	Patients visiting UNRWA health centres annually
143 health centres, 475 doctors and 1,080 nurses	$180.72 million spent in health programme
$1.14 billion	UNRWA final budget 2017

A. Mandate, scope and methodology

1. The United Nations Relief and Works Agency for Palestine Refugees in the Middle East (UNRWA) was established by General Assembly resolution 302 (IV) of 8 December 1949 and became operational on 1 May 1950. It is a subsidiary organ of the Assembly within the United Nations system. The mandate of UNRWA is to help Palestinian refugees achieve their full potential in terms of human development under difficult circumstances, consistent with internationally agreed goals and standards. UNRWA is one of the largest United Nations programmes, serving more than 5 million Palestinian refugees in the Gaza Strip, Jordan, Lebanon, the Syrian Arab Republic and the West Bank. UNRWA is also one of the largest employers in the Middle East, with approximately 31,042 staff, most of whom are Palestinian refugees.

2. The Board of Auditors has audited the financial statements of UNRWA and has reviewed its operations for the year ended 31 December 2017 in accordance with General Assembly resolution 74 (I). The audit was conducted in conformity with regulation 12.2 of the Financial Regulations of UNRWA and the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNRWA as at 31 December 2017 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). This included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing body and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations of the Agency. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered it necessary in order to form an opinion on the financial statements.

4. In addition to the audit of the financial statements, the Board carried out reviews of UNRWA operations in accordance with regulation 7.5 of the Financial Regulations and Rules of the United Nations. Specific areas covered during audit include treasury and cash management, education programme management, health programme management, budget management, procurement and contract management, property management, relief and social services programme management, human resources management, assets management, project and programme management, results-based management and information and communications technology.

B. Findings and recommendations

1. Follow-up to previous recommendations of the Board

5. Of the 77 outstanding recommendations up to the year ended 31 December 2016, 51 (66 per cent) were fully implemented, 18 (23 per cent) are under implementation, 1 (1 per cent) was not implemented and 7 (10 per cent) were overtaken by events. Details of the status of implementation of these recommendations are shown in annex I.

2. Financial overview

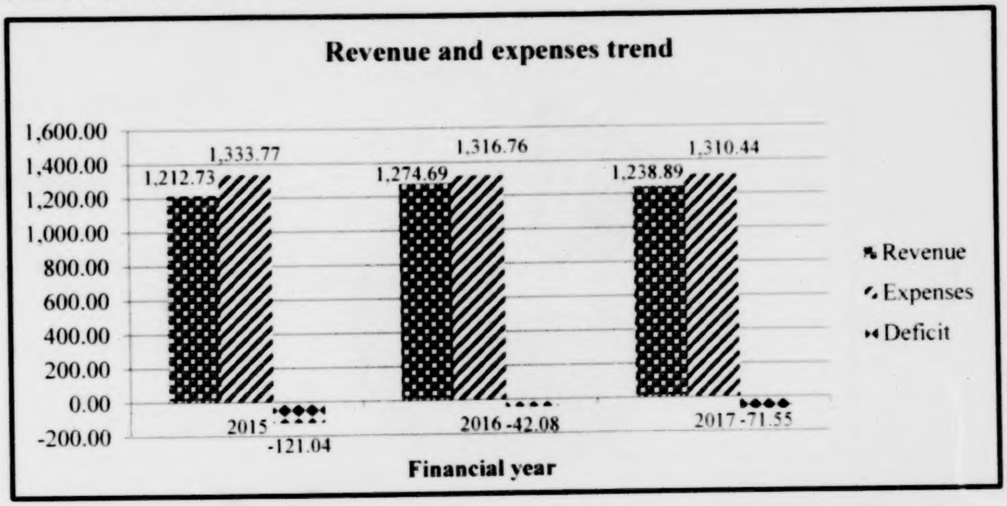
Financial performance

6. UNRWA reported a deficit of $71.55 million for the year ended 31 December 2017 (2016: $42.08 million). The reported deficit represents an increase of 70 per cent as compared with the previous deficit of $42.08 million. This deficit is largely the result of depreciation and amortization expense of $36 million that is included in the total expenses for the year and a slight decline in revenue by $35.80 million caused by the suspension of its contribution of more than $100 million by one of the major donors. The comparative revenue and expenses trend for three years is shown in figure I.

Figure I

Comparative revenue and expenses for three years

(Millions of United States dollars)



7. The programme budget, which finances the core activities of the Agency, reflected a significant increase in deficit by 72 per cent, from $48.34 million reported in 2016 to $83.05 million in 2017. The increase in deficit was mainly attributable to increases in wages, salaries and employees benefits by 10 per cent as a result of the new health salary scale and revision of the special allowances for the West Bank and Gaza field offices, coupled with a decrease in contributions from donors. With the exception of the programme budget and emergency appeals, which recorded deficits during the year, three other funds showed a surplus (see analysis in table 1).

Table 1

Financial performance by fund

(Millions of United States dollars)

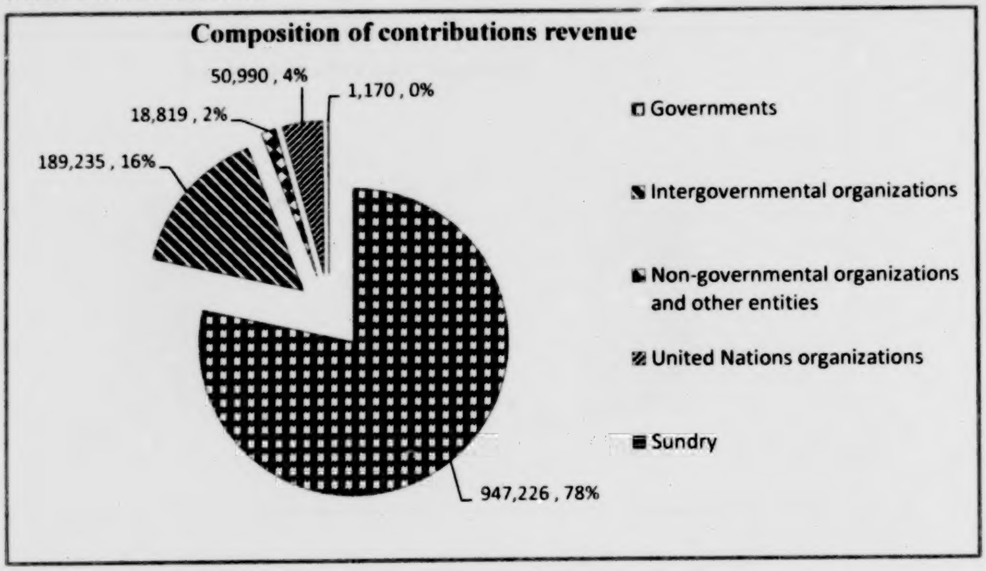
	Unearmarked activities	*Earmarked activities*					
Description	*Programme budget*	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Revenue	690.09	22.93	12.27	355.87	212.16	-54.43	1 238.89
Expenses	773.14	22.75	9.20	402.57	157.13	54.35	1 310.44
Surplus/(deficit)	**(83.05)**	**0.18**	**3.07**	**(46.70)**	**55.03**	**(0.08)**	**(71.55)**

Source: UNRWA financial statements for 2017 (see note 33).

Composition of contributions revenue

8. Of the total contributions reported during 2017 of $1,207.44 million, $1,156.45 million (96 per cent) represents voluntary contributions from various donors, while the remaining balance of $50.99 million (2016: $47.84 million), equivalent to 4 per cent, was received from the United Nations regular budget and other United Nations agencies (see figure II).

Figure II
Contributions received by source
(Thousands of United States dollars)



Source: UNRWA financial statements 2017.

Financial position

9. The analysis of the Board of the financial statements for the year 2017 indicates that the financial position of UNRWA remained sound as at the year-end, on the basis of the key financial indicators. Table 2 contains key financial ratios computed from the statement of financial position and statement of financial performance. The ratio analysis indicates that, despite continued financial pressures in 2017, UNRWA remains in a strong financial position, with high levels of liquid assets. Nevertheless, the overall net assets declined from $142.63 million in 2016 to $41.85 million in 2017, while the accumulated surplus has declined from $149.30 million in 2016 to $77.74 million. The significant decline in accumulated surplus is attributable to the deficit of $71.55 million sustained during the year.

10. Although the value of net assets has declined, UNRWA continued to have a high ratio of current assets to current liabilities. As at the year end, UNRWA had $2.27 (2016: $2.94) current assets to finance each dollar of its outstanding debt, while for the quick ratio, the Agency had $1.46 (2016: $1.91) to cover each dollar of immediate current liabilities when they fall due. Likewise, the total assets at the year-end were 1.04 times the total liabilities; this indicates a generally sound position and the high liquidity of the Agency.

11. While the overall position of the Agency remains strong, the programme budget, which finances the core activities, continues to experience a liquidity pressure whereby its current liabilities continue to exceed current assets. As at the year end, the programme budget had a quick ratio and current ratio of 0.28 and 0.42 respectively to cover each dollar of current liabilities. These ratios are below the recommended ratio of at least 1 dollar of assets for each dollar of liabilities.

Table 2
Ratios of key financial indicators

Description of ratio	*2017 (all funds)*	*Programme budget 2017*	*2016 (all funds)*	*Programme budget 2016*
Current ratio[a] (Current assets/current liabilities)	2.27	0.42	2.94	0.43
Quick ratio[b] (Cash + short-term investments + accounts receivable/current liabilities)	1.46	0.28	1.91	0.24
Cash ratio[c] (Cash + short-term investments/current liabilities)	1.34	0.06	1.76	0.06
Total assets/total liabilities[d]	1.04	0.63	1.17	0.68
Defensive interval ratio (days)[e] (Current assets/total expenses)[f]	131.44	35.03	109.67	27.06

Source: UNRWA 2017 and 2016 financial statements.

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position (equal to or greater than 1).

[c] The cash ratio is an indicator of an entity's liquidity that measures the amount of cash, cash equivalents or funds invested in current assets to cover current liabilities.

[d] A high ratio is a good indicator of solvency.

[e] A favourable indicator is the number of days above 30.

[f] Total expenses excludes depreciation and impairment expenses.

12. Total liabilities of UNRWA stood at $944.14 million as at 31 December 2017, with employee benefits liabilities of $815.12 million, representing 86 per cent of the total liabilities. Long-term employee benefits liabilities were $731.03 million, compared with $668.54 million reported in the previous year, an increase of $62.49 million. The increase was mainly attributable to the application of new salary scale for area health staff from 1 January 2017 to align with the market pay scale.

13. The Board noted a slight increase in cash balances maintained by UNRWA. As at 31 December 2017, UNRWA had cash balances amounting to $271.42 million, compared with $267.23 million reported in 2016. Of the $271.42 million, only $9.94 million (4 per cent) was available for programme budget (unearmarked) activities while $261.48 million (96 per cent) was available for earmarked activities. The available cash balance for the programme budget of $9.94 million could meet regular expenditure of the Agency for only five days. UNRWA was thus exposed to the risk of shortage of funds, which may lead to difficulties in meeting its monthly operating costs, in the event of delay in receiving contributions from donors.

Budget deficit

14. UNRWA closed the year with a budget deficit of $49 million as at 31 December 2017. The deficit was caused mainly by reduction of the contribution from one major donor. As a result of the budget deficit, the Agency experienced some operational issues, such as the delayed salary payment to area staff for the months of November and December 2017 and the deferment of $8.68 million due to suppliers in November and December 2017 to the financial year 2018. The Agency's projected budget deficit for the year 2018 is $446 million. The Board considers that the unpredictability of UNRWA funding will continue to threaten the core operations of the Agency and create uncertainty in relation to service sustainability.

3. Travel management

Advance purchase of air tickets

15. Paragraph 5.11 of UNRWA Administrative Services instruction No. 1, official travel guidelines for UNRWA personnel, of April 2016 requires travellers to confirm travel itineraries as early as possible and purchase air tickets at least 15 days in advance of travel. The Board reviewed air ticket management at UNRWA headquarters in Amman and at the field offices in Lebanon, Jordan and the West Bank to ascertain the level of compliance with the instruction and found a number of deficiencies, detailed below, which need management intervention for improvement.

16. **At UNRWA headquarters in Amman.** Of 472 air tickets purchased for the year 2017, 380 (81 per cent) were purchased less than 15 days in advance of travel. Of these, 206 (54 per cent) were purchased within 0 to 5 days; 125 (33 per cent) within 6 to 10 days; and 49 (13 per cent) within 11 to 14 days. Also, despite the introduction of the travel guidelines in April 2016, the level of non-compliance increased from 62 per cent in 2016 to 81 per cent in 2017 (see table 3).

Table 3
Trend of advance ticket purchase for two years

	January–December 2016		*January–December 2017*	
Description	*Number of tickets*	*Percentage*	*Number of tickets*	*Percentage*
Requests made less than 15 days before travel date (non-compliant cases)	328	62	380	81
Requests made more than 15 days before travel date	197	38	92	19
Total	**525**	**100**	**472**	**100**

Source: UNRWA information extracted from the travel management system.

17. **At the Lebanon field office**. Of 264 tickets purchased in 2017, 261 (99 per cent) were booked less than 15 days before the date of travel. Of these, 238 (91 per cent) were booked within 0 to 5 days, 19 (7 per cent) within 6 to 10 days, and 4 (2 per cent) within 11 to 14 days.

18. **At the Jordan field office**. Of the 20 tickets bookings made from January to December 2017, 15 tickets (75 per cent) did not indicate booking dates. Of the remaining five tickets, three were booked within 0 to 5 days, while two were booked at least 15 days before travel as required by the policy. UNRWA informed the Board that six of the tickets which did not show booking dates were booked by the Lebanon field office and six by headquarters in Amman, while three tickets were personal bookings on official trips. However, the Jordan field office and headquarters in Amman were unable to provide records of these tickets in their list.

19. **At the West Bank field office**. Of the 17 tickets purchased from January to December 2017, 11 (65 per cent) tickets were booked less than 15 days in advance. UNRWA attributed the noted deficiency to the policy of local travel agents, which requires confirmation of bookings and purchase of tickets within a very short period. They also commented that, given the budgetary constraints, it was not easy to secure the required 15 days' notice, as the travel required a lengthy approval period. UNRWA assured the Board that the modification of the system had been initiated with initial implementation set for six months; however, owing to lack of resources, there had been a delay in upgrading the system to capture all the required information, including personal bookings made less than 15 days in advance. However, the Board noted that

the non-compliance was caused mainly by late application for and confirmation of travel requests, whereby most were confirmed a few days before travel. The non-compliance with the policy was not substantiated in a way that could be documented in the travel management system. The Board considers that UNRWA needs an appropriate enforcement mechanism to address the weakness noted so as to ensure compliance with the travel guidelines.

20. **The Board recommends that UNRWA (a) develop and implement an enforcement mechanism to ensure compliance with the travel guidelines, which may include obtaining approval from the UNRWA executive office for travel requests below 15 days; and (b) review the advance purchase policy and evaluate how best prices for travel can be achieved.**

21. **The Board also recommends that UNRWA (a) document reasons in the travel management system for all travel requests and bookings made less than 15 days in advance of travel; (b) ensure that all official trips are booked by the travel office and avoid personal bookings, to enhance compliance with procurement procedures; and (c) ensure that the booking dates of all tickets in all fields are documented and maintained in the travel management system.**

Lack of quotations for purchase of air tickets

22. The Board reviewed 28 travel records and found 13 (46 per cent) cases which were not supported by at least three quotations from different travel agents in order to obtain the most competitive price, as required by section 6.3.2 of the UNRWA procurement manual (2015). These included 7 cases supported by price quotations from one agent and 6 cases from two agents. Management explained that it obtained three quotations from the contracted travel agents and purchased the lowest-priced tickets. However, the Board noted that management did not maintain proper records to confirm that the office had collected three quotations for travel tickets; rather it kept one quotation on explanations that it was the lowest, while other quotations received remained in the officers' email inboxes. The Board considers that the lack of at least three quotations in the file made it difficult to confirm whether the tickets purchased were the most economical. Also, records retained in staff email are not considered as office records because such information cannot be easily retrieved when needed.

23. In addition, the Board noted four cases in which the best prices were not selected and no reasons were provided. For example, a ticket with travel authorization number TT/17/00/0561/0000 for a route from New York to Tel Aviv with the lowest quotation of JD 2,055 ($2,903) was not selected, and the Agency purchased a ticket for JD 3,255 ($4,598), which is $1,695 higher than the lowest-priced ticket.

24. UNRWA informed the Board that, in accordance with its travel rules, the decision to allow the ticket for business travel is determined by the duration of the travel, and the selection of the ticket is guided by the principle of the most direct and most economic route. An alternative route may be approved when in the opinion of the executive office (Chief of Staff or designate), it is in the best interests of the Agency. Despite the explanation provided, the Board noted that, in one of the cases, the most direct and most economic route cost was $1,003, but another flight which cost $1,532 was selected without any documented supporting reasons from the executive office.

25. **The Board recommends that UNRWA (a) maintain price quotations for other options in the file to enhance internal control and confirm that the best option is selected over other options; (b) ensure that the price quotations are received from at least three agents to widen the scope of price options; and**

(c) document the reasons in cases where the selected price is not the best price and ensure that they are approved by the executive office.

4. Human resources management

Annual staff performance appraisal and salary increments

26. According to paragraph 22 of area personnel directive No. PD/A/23 of 1 April 2012, the annual increment is part of the Agency's pay policy and a one-step salary increment is allowed in the pay grade for those awarded an overall performance rating of "fully meets expectations or above". Also, paragraph 6 of PD/A/3 Rev.1, Part III of 1992 requires that "in case of multiple-grade promotion, a staff member selected for a higher-graded post may be promoted to the full grade level of the post irrespective of the number of grades involved provided he/she meets all post requirements, and his/her overall performance during the previous 12 months service is rated good or above". However, from the review of staff performance appraisal and salary increments, the Board found the following cases of non-compliance with the policy.

27. **At headquarters in Amman**. In its review of the e-Per system, which facilitates the documentation of the annual performance appraisal of all staff, the Board identified that only 188 (65 per cent) of 290 existing staff as at December 2017 had completed and submitted their annual year performance reviews, as required by the Directive. This percentage is significantly lower compared with a compliance level of 74 per cent (211 staff out of 286) recorded in 2016. In addition, from a sample of 15 staff who were granted salary increments in 2017, the Board found that 10 staff (67 per cent) were given increments without completing their performance appraisals for 2016. This indicates that supervisors and heads of department who are entrusted with responsibility for monitoring compliance, rewards and recognition are not adequately exercising their roles.

28. **At the Lebanon field office**. The e-Per compliance records showed that 154 (5.5 per cent) out of 2,785 existing area staff did not complete their performance evaluations for the year 2016. Included in the 154 staff are 137 staff who, in addition, did not complete their overall rating as required by paragraph 6 of PD/A/3 Rev.1, Part III of 1992. Nevertheless, 3 of them were promoted to higher grades and 58 were granted annual salary increments, contrary to paragraph 22 of area personnel directive No. PD/A/23 of 1 April 2012. This is a reflection of lack of linkage between performance appraisal and salary increments and promotions, as both compliant and non-compliant staff members are rewarded equally. Likewise, for the year 2017, the Board noted that a total of 1,236 out of 2,832 staff (44 per cent) did not complete their annual performance reviews. This is an indication of inadequate supervision to ensure that all staff complete their performance evaluations as required by area personnel directive No. PD/A/23.

29. **At the Jordan field office**. A total of 112 (2 per cent) out of 6,423 area staff reviewed by the Board from the e-Per compliance records did not complete their performance evaluations for the year 2016. From a sample of 20 staff who did not complete their performance evaluations in 2016, the Board noted that 14 (70 per cent) were granted annual salary increments and 1 staff member was promoted, contrary to paragraph 22 of area personnel directive No. PD/A/23 of 1 April 2012. In addition, 343 out of 6,377 staff (5 per cent) had not completed their annual performance reviews for the year 2017. The Jordan field office informed the Board that there had been a technical problem in the REACH system during 2017, and that the Human Resource Office had reminded supervisors to carry out performance evaluations after the system problem was resolved.

30. **At the Gaza field office**. Out of 12,887 area staff reviewed by the Board at the Gaza field office, 1,011 staff (8 per cent) did not complete their 2016 performance evaluations, of whom 19 staff (2 per cent) were promoted to higher grades, while 34 staff (3 per cent) were granted annual salary increments, which is contrary to PD/A/3 Rev.1, Part III and area personnel directive No. PD/A/23. In addition, as at April 2018, a total of 318 staff (3 per cent) had not completed their 2017 performance reviews. Management explained that, in 2016, the Gaza field office had experienced technical problems with relief and social services programme staff and health staff in completing their performance evaluation forms. It also stated that, in the 2017 cycle, such problems continue because of the introduction of a new levelling of salary scale, to be consistent with the market, which made most health staff unable to use the electronic time management system and that the Information Management Department was still working on the matter to resolve the problem.

31. **West Bank field office**. A total of 1,777 (46 per cent) out of the 3,856 staff reviewed by the Board in the e-Per compliance report for the year 2016 did not complete their performance evaluations. Also, annual performance reviews were not performed for 1,198 staff (34 per cent) out of 3,517 staff reviewed by the Board for the year 2017. In addition, the Board noted that, of the staff who did not complete their performance evaluations during 2016, 44 were granted salary increments, while 16 were promoted.

32. UNRWA stated that salary increments are guided by ZPA12[2] reports, which exclude only staff in ongoing misconduct cases, special leave without payment and separated staff but does not take into account the performance appraisal. However, the Board considers that awarding salary increments and promotions to staff who have not completed performance appraisals implies that performance records are irrelevant and that this can demoralize the best-performing and compliant staff. This practice also goes against area personnel directives No. PD/A/3 Rev.1, Part III and No. PD/A/23.

33. **UNRWA agreed with the Board's recommendation that it (a) establish a linkage between salary increment and performance appraisal to ensure that salary increments and promotion of staff are based on performance appraisal, while staff members with uncompleted performance appraisal and unsatisfactory performance are subjected to deferment of annual salary increment as required by personnel directives No. A/3 Rev. 1 and No. PD/A/23; and (b) enhance the monitoring of staff performance appraisal and ensure that heads of departments and division exercise their supervisory roles with regard to the completion of staff performance appraisal.**

Manual intervention in calculating international staff entitlements

34. UNRWA had installed the REACH system as the integrated enterprise resource planning system to implement its organizational transformation and manage its transactional processing, including international staff entitlements. The objective of this reform was to enhance the calculation of salary entitlements and other payments/deductions and support the staff cost accounting process. The Board reviewed a sample of 25 cases of international staff separation entitlements, in particular those related to time management, such as repatriation grants, leave encashment and adjustments of advance education grants. The Board noted computation errors whereby a total of $18,039 was overpaid as repatriation grants in five of the cases reviewed and $34,313 as leave encashment in three of the cases.

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[2] ZPA12 refers to the report containing the list of staff members entitled to the salary increment in a specific month.

35. The Board considers that the erroneous payments were caused mainly by manual intervention in the determination of staff entitlements because the leave system (e-leave) used for international staff has no interface with time management modules in the REACH system. The calculation of international staff entitlements is performed outside the REACH system, which increases the risk of human error. The Board also noted that changes[3] in the computation of repatriation grants as defined in international staff rules 9.13 and 13.1 on transitional measures were in some cases wrongly applied in deriving the repatriation grants. Amended staff rule 9.13 of July 2016 establishes a limit of five years of service for staff to qualify for a repatriation grant. This limit of five years of service was not in the previous rule, and therefore calculation was not well understood by staff in the International Personnel Services Section.

36. UNRWA stated that the cases noted of erroneous calculation of leave encashment were due to system errors and did not emanate from manual calculation; nevertheless, it recognized the risk of errors and promised to improve the review process by drawing up a list of factors determining the entitlement. Management also explained that it intended to establish review levels whereby the computation would be checked and verified by both the Human Resources Officer and the Head of the International Personnel Services Section. UNRWA also explained that, depending on resources availability, it expected to integrate the e-leave system into the REACH system by 2019, to solve the deficiencies noted.

37. **The Board recommends that UNRWA (a) improve its review process in respect of the manual computation of staff entitlements while awaiting the interface between the electronic leave system and the REACH system to minimize the risk of human error; and (b) enhance the time management module in the REACH system through integration with the stand-alone e-leave system to facilitate system computation of leave encashment.**

Delay in recruitment process for area staff

38. Paragraph 20 of the UNRWA area staff selection policy requires the recruitment process to be completed within a period of 90 days from the date of publication of a vacancy notice to the date on which a selection decision is made. From the review of recruitment reports from two field offices, the Board identified the following deficiencies in the recruitment process:

- **At first field office**. The recruitment process to fill 10 (45 per cent) out of 22 area staff vacant posts was completed on 30 October 2017, after delays ranging from 106 to 223 days beyond the target period of 90 days.
- **At second field office**. Recruitment processes for 43 (80 per cent) out of the 54 posts advertised and filled as at 30 October 2017 were delayed for periods ranging from 15 to 197 days beyond the maximum target period of 90 days.

39. The Board was informed that the protracted delay in the recruitment process in the two field offices was caused by hiring departments which took longer than expected in screening the applicants and preparing the technical questions.

40. In the case of the first field office, management added that the delay was also caused by the involvement of a representative from government, who is a mandatory member on the interview panel, in accordance with host Government law. This process ultimately led to delay, owing to late confirmation of attendance. However,

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[3] On 1 July 2016, UNRWA began implementing changes in the eligibility for the repatriation grant brought in by the International Civil Service Commission, whereby a staff member is entitled to a repatriation grant after service of five years.

the management explanations could not be substantiated as, in the Board's analysis of the 10 cases, it was noted that delays in only 2 of the cases were caused by confirmation delays on the part of the government representative (18 days in one case and 73 days in the other). As for the remaining eight cases, the confirmation delay ranged from 1 to 7 days. The Board was also informed that the delay was caused by high turnover of staff in the Human Resources Office for the first field office at both the operational and managerial levels. The field office concerned decided to bring three staff from headquarters in Amman to provide support to the field in recruitment and in human resources responsibilities in general. The field office is now in the process of further enhancing the capacity and capability of the recruitment team, in terms of resources, skills and knowledge, through support from headquarters.

41. The Board found that, in most cases, recruitment delays in the two field offices were caused mainly by weaknesses in the internal arrangements, such as the lack of an action plan for each stage of recruitment, including preparation of questions, marking the test, release of results, submission of a list of candidates from human resource to hiring departments and submission of an invitation to the host Government to attend the interview as an observer after test results for the first field office. The recruitment action plan could indicate the time frame for completion of each of those recruitment stages, including timelines for other key steps, such as signing of the employment contract to enhance follow-up, as well as tracking and accountability. The Board is of the view that the recruitment process needs to be conducted in an organized manner to minimize delays which might impact service delivery to refugees.

42. **UNRWA field offices agreed with the Board's recommendations that it observe the required time frame for the internal recruitment process for effective and timely service delivery to refugees.**

Leave parameters not reflected in the REACH system for individual service providers

43. Individual service providers are complementary personnel who were formerly known as consultants and contractors, under former organizational directive No. 29. The changes were introduced in December 2016 through complementary personnel directive No. 1. The new directive contains some additional benefits and conditions which were not in former organizational directive No. 29, under which consultants and contractors were entitled to receive annual leave benefit of 2.5 days per complete month of service, and they were not entitled to any sick leave days. However, section 1.2 of the general terms and conditions of individual service provider contracts of the current directive has been revised to provide annual leave entitlement of 1.5 days and sick leave of 2 days per completed month of service.

44. During the review of the leave parameters in the systems at the West Bank field office, the Board found that the configuration in the REACH system still uses 2.5 days rather than 1.5 days per month for the determination of annual leave, contrary to the revised directive. The Board also noted that the configuration of sick leave days for individual service providers had not been changed in the system in line with the revised directive, which allows sick leave of two days per completed month, but limited to seven days within 11 months.

45. The Board was informed that, for each month, the human resources officer reduced the annual leave of 2.5 days per month as configured in the system to 1.5 days to comply with the revised directive and added the days of sick leave to each individual service provider employee. The Board is of the view that change in the internal policies needs to be reflected in the system to avoid manual intervention, which is prone to errors that might affect the accuracy of the payments for leave entitlements.

46. **UNRWA agreed with the Board's recommendation that it (a) configure the REACH system to include 1.5 days per month as annual leave days and 2 days' sick leave to align with the new complementary personnel directive (CPD/1) and avoid the risk of errors through manual intervention; and (b) ensure that any changes in the policies relating to staff entitlement are immediately reflected in the system for the accurate computation of staff entitlements.**

International staff posts funded by regular budget and extrabudgetary sources

47. Pursuant to General Assembly resolution 3331B (XXIX) of 17 December 1974, from 1 January 1975, the salaries and expenses of international staff in the services of UNRWA are funded by the regular budget. The Board reviewed the 2016–17 biennium programme budget, which identified international staffing requirements as part of committed human resources against the actual number of staff available, and noted the following inconsistencies:

(a) **Changing the organizational structure**. In 2016, the Agency introduced changes in the organizational set-up to include new departments and support divisions/unit; however, the changes are not supported by the approved organization structure as reflected in the 2016–17 biennium budgets. The new departments/divisions include the Information Management Department and the Department of Security and Risk Management Department. The Board also noted that the changes were not supported by an organization directive or guideline, as the existing organizational directive No. 3 of 2006 does not cover these changes, and therefore the mandate and scope of the new departments are not clearly defined in any approved document. UNRWA explained that the two departments were not reflected in the organizational structure in the 2016–2017 budget because both departments were set up after the preparation of that budget. The biennium budget for 2016–2017 was prepared in early-mid 2015, whereas the Departments were established subsequently. These changes will be reflected in the organizational directive;

(b) **Request and disbursement of grants for posts funded under the United Nations regular budget**. UNRWA uses 155 posts as the basis for requesting advance grants from United Nations regular budget for international staff posts, while it had an average of 130 staff in year 2017. The Board considers that the Agency needs to use the actual number of staff when requesting and accounting for the grants from United Nations Headquarters. UNRWA explained that reporting on grant disbursed for the posts concerned is based on standard templates applied for all United Nations entities. Advance grants for international staff are based on approved posts but the disbursement reports are compared between the annual actual expenditure and the total annual advance grants received. UNRWA also attributed the discrepancy between the number of staff and advance grants requested to factors such as the assumed vacancy rates at United Nations Headquarters, which slightly deflates the final amount allocated to each budget section.

48. The Board takes note of the management's explanations but still considers that UNRWA needs to ensure that the organization structure and organizational directive No. 3 are updated in accordance with the management commitment. The Board is also of the view that UNRWA needs to communicate with Headquarters with regard to discrepancies originating at the Headquarters and ensure that it uses the true number of staff in requesting and reporting on the advance from Headquarters.

49. **The Board recommends that UNRWA (a) update the existing organizational structure and organizational directive No. 3 to reflect the additional departments and divisions; and (b) indicate the actual number of staff when requesting and accounting for advance grants received from United Nations Headquarters to finance international staff posts under the regular budget.**

Management of staff leave

50. UNRWA monitors staff leave through the e-leave system for international staff and through the electronic time management system for area staff. The two systems were developed primarily to facilitate leave management, including identifying and managing all non-compliance and determining leave entitlements for the staff concerned, as well as leave balances at year-end for reporting in the financial statements.

51. From the review of international and area staff leave data from the Amman headquarters and other field offices as at 31 December 2017, the Board noted the following deficiencies, which need management intervention for further improvement:

International staff

(a) *Leave taken prior to supervisors' approval*

52. Out of a total of 2,765 cases of staff leave, 1,473 were reviewed by the Board, of which there were 272 cases of annual leave, home leave, maternity leave and paternity leave taken by staff without the prior approval of their supervisors, contrary to paragraphs 8 and 9 of Staff rule 105.1. For example, leave applications in 181 (67 per cent) of the 272 cases were submitted 8 to 200 days from the dates on which staff members began their leave, as summarized in table 4. UNRWA attributed the deficiencies noted to various factors, including: technical challenges and absence of the supervisors. They also argued that, in some cases, staff leave was initially approved through email, with the approval entered in the system after the staff members concerned returned from leave. However, the Board considers that the reasons provided do not justify the non-compliance since there were staff working in the same environment whose leave was requested in advance and approved on time by their supervisors. Also, approval of leave applications does not require the physical presence of supervisors, as it is an online process through the e-leave system.

Table 4
Time taken from leave start date to leave application date

Period elapsed after taking leave	*Number of cases*	*Percentage*
60–200 days	43	16
30–59 days	46	17
8–29 days	92	34
At most 7 days	91	33
Total	**272**	**100**

Source: International staff leave records for headquarters in Amman and all fields.

(b) *Inconsistency in the leave approval level*

53. A total of 1,475 staff leave applications reviewed by the Board at headquarters in Amman and the five field offices included 220 (15 per cent) applications which were approved by both first and second supervisors, while 1,255 applications (85 per cent) were approved by only one supervisor. The Board considers that the absence of uniformity in approving leave applications may create ambiguity and give rise to complaints among UNRWA staff. For instance, the Board noted that 9 of the 16 leave cases which were approved by the first supervisor only were eventually disapproved by the second supervisor. Management stated that approval of leave requests by the second supervisor was optional; however, to avoid the ambiguities noted, the approval

authorities would be streamlined in the e-leave system and optional approval would no longer be available, except for international drivers.

(c) Inadequate follow-up on cancelled and pending leave

54. The 1,475 staff leave applications also included 105 (7 per cent) staff leave which was cancelled by supervisors, of which 26 leave applications were cancelled after the staff concerned had already taken their leave. All 26 leave applications remained pending for a period ranging from 1 to 125 days without management action. UNRWA explained that a communication would be sent out by the Human Resources Department to remind supervisors to approve leave requests on time and to monitor the leave application to avoid commencement of leave prior to submission and/or supervisors' approval in the e-leave system.

(d) Inaccurate leave balance

55. UNRWA staff members are entitled to 2.5 leave days per month, to be taken within the annual leave cycle, with maximum carryover of accumulated leave balance of 60 days. The Board compared the year-end leave balances extracted from the e-leave system with records in the attendance registers for a sample of 15 international staff and noted discrepancies in relation to 14 (93 per cent) staff. For instance, while, for eight staff, leave balances were overstated by 102.5 days ($42,114.62),[4] the balances for six staff were understated by 52 days ($21,466.94). This indicates that leave balances extracted from the e-leave system for submission to the consulting actuary were inaccurate compared with the data from actual staff attendance records, which constitute a primary document.

56. The Board is of the view that continuing to use the e-leave system to establish leave balances without regular reconciliation with the staff attendance records might lead to misstatement of financial statements and the payment of incorrect amounts for leave encashment. The weaknesses noted in e-leave system management are due mainly to system configuration such as the deduction of leave balance for the approved long booked leave application, non-consideration of rejected and pending leave already taken.

57. The Board considers that the weaknesses noted with regard to leave management are due mainly to inadequate review of leave balance in the e-leave system, lack of regular reconciliation between the attendance register and e-leave system and inadequate monitoring of staff leave by their supervisors.

Area staff

(a) Inaccurate leave balances

58. From its review of leave balances for area staff at headquarters in Amman, the Board noted discrepancies in 10 out of 15 staff sampled, as compared with data submitted to the actuary for valuation. Of the 10 staff with discrepancies, leave balances for 7 staff were understated by 62.65 days ($4,020.50), while leave balances for 3 staff were overstated by 17.70 days ($1,219.41). This cast doubt on the reliability of the data used for the calculation of leave provision.

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[4] The provision for leave encashment is calculated by taking the annual basic salary of International staff/261 x annual leave balance.

(b) *Lack of system audit trail for leave balances*

59. The Board requested the extraction of year-end leave data from the e-leave system for international staff and from both the REACH system and the electronic time management system for area staff to validate the leave data submitted to the actuary. However, UNRWA failed to provide such information, as the systems cannot generate leave balances for past dates. The Board also noted that the leave balance used to compute the provision of international staff leave liability was generated on 27 December 2017, rather than 31 December 2017 to cover the full year. The International Personnel Services informed the Board that the extracted leave balances of 27 December 2017 were adjusted manually to obtain the balance for 31 December 2017; however, the Board did not find any evidence to substantiate the manual adjustment of leave balance to 31 December 2017. The Board was further informed that the e-leave, electronic time management and SAP systems cannot generate leave balances for past dates (e.g., 31 December 2017); rather, they generate a report for the current date, which the Human Resources Department adjusts backwards or forwards manually. Independent adjustment of the leave balances of the 15 sampled area staff at headquarters in Amman from 15 April 2017 to 31 December 2017 noted 10 staff with leave balances which differed from the leave records submitted to the actuary. This casts doubt on the reliability of the leave balances extracted from the systems.

60. The Board is of the view that the failure of the e-leave system, electronic time management and REACH systems to generate past dates leave position reports could result in incorrect leave balances arising from incorrect reporting dates and manual adjustment, which is prone to errors, consequently leading to misstatement of the provision for leave liabilities.

(c) *Leave taken prior to supervisors' approval and long pending leave applications*

61. **At headquarters in Amman**. A total of 4,396 leave cases reviewed by the Board for the year 2017 included 1,267 (29 per cent) of leave cases whereby staff took their leave prior to their supervisors' approval. The staff submitted their leave applications 1 to 112 days to after commencement of their leave. Management stated that staff members notified their supervisors by telephone or email of their intention to take annual leave. Such leave was entered in the system when the staff members returned to duty; other leave was unplanned and therefore submission of a leave request prior to commencement of the leave was not possible. However, the Board considers that the reasons provided with regard to notifying supervisors through email do not justify the non-compliance, since leave is processed online and staff could submit a formal leave application directly through the leave system instead of sending an email.

62. **At the Jordan field office**. The 19,538 leave cases reviewed by the Board for the year 2017 included 1,471 (8 per cent) leave applications which were not attended to by supervisors for a period ranging from 1 to 295 days from the date of application, while the staff concerned had already taken the leave. The 1,471 pending leave applications included 986 (67 per cent) applications which related to 107 separated area staff. The 1,471 applications also included 1,299 (88 per cent) cases of leave taken prior to the submission of leave applications to supervisors. UNRWA informed the Board that it would closely monitor the pending leave by sending reminders other than the normal reminders generated automatically from the electronic time management system to supervisors who had not attended to the long pending leave applications.

63. **At the West Bank field office**. A total of 453 leave applications were not approved by the supervisor until the staff concerned had already taken their leave, and the applications remained pending for periods ranging from 1 to 937 days. The

Board also noted a further 263 leave applications which had already been approved by supervisors in the electronic time management system but not captured in the REACH system owing to a system fault for periods ranging from 1 to 899 days. The Board also noted that two separated staff members who were overpaid a total of $4,266 leave encashment owing to incorrect leave balances in the REACH system. The overpayments resulted from pending leave, whereby the staff concerned took the leave further to supervisors' approval in the electronic time management system but that information was not automatically uploaded to the REACH system to deduct the staff leave balance. The West Bank field office assured the Board that it would recover the overpaid monies from the provident fund member credits balance.

64. The West Bank field office informed the Board that the 453 pending leave requests in the system had been approved orally by the supervisors concerned rather than being approved in the system. With respect to the 263 leave applications which had been approved in the electronic time management system but not uploaded to the REACH system, management explained that the REACH system was normally locked for 10 days during monthly payroll processing and that, during that period, the leave eligibility verification option in REACH stopped working. However, staff members could take leave further to the approval of their supervisors in the electronic time management system, and once the system was opened, REACH automatically updated all leave applications which had been processed when it was locked, but sometimes some of these were not automatically uploaded to the REACH system owing to a system fault relating to the interface between the REACH and electronic time management systems.

65. **At the Lebanon field office**. The Board found that 222 leave applications had not been attended to by supervisors for periods ranging from 1 day to 242 days. The 222 leave cases included 129 (58 per cent) applications taken prior to the supervisors' approval, contrary to Staff Rule 105.1. The Board was informed that management was working on a systemic solution whereby pending leave would be automatically approved after a certain period.

66. All leave taken without approval in the system was not deducted from the staff leave balance in either the electronic time management or the REACH system, since the systems deduct only leave approved by a supervisor through the electronic time management system. The Board considers that long pending leave applications without approval by supervisors may give rise to incorrect leave balances and eventually result in inaccurate leave entitlements and misstatement of the financial statements. The Board is also of the view that the practice of granting leave orally may allow staff to take more days' leave than are available in their leave balance since the systems do not deduct leave days approved orally.

(d) *Rejected leave applications*

67. **At the Jordan and Lebanon field offices**. A total of 627 leave requests rejected by supervisors included 320 (51 per cent) applications which were rejected after the staff concerned had already commenced their leave. The rejected leave requests also included leave for two staff members who had separated from the Lebanon field office while no deductions had been made from their leave encashment or monthly salary.

68. The rejection of leave requests for staff members who had already taken the leave signifies that leave approval is not being used as a tool of management control but rather is a mere formality. UNRWA stated that the rejected leave does not affect their leave balance in the system because the Human Resources Department normally generates report from the REACH system to ensure that pending and rejected leave is charged manually on the monthly salary of the staff or leave encashment of the separated staff. However, the Board found that the supervisors did not communicate

with the Human Resources Department with regard to the deduction of those days in the staff monthly salary as explained by management.

69. **UNRWA agreed with the Board's recommendation that it (a) improve monitoring of staff leave through supervisors to ensure that all leave applications are approved prior to the commencement of the leave; (b) streamline the levels of leave approval in the e-leave system to maintain consistency; and (c) perform regular review of leave systems to identify and take action with regard to non-compliance, including the charging of pending and rejected leave to the monthly salary of the staff concerned or leave encashment for the separated staff.**

70. **UNRWA also agreed with the Board's recommendation to (a) investigate the discrepancies noted in the leave balances and take appropriate action to arrive at correct leave entitlement for all staff; (b) perform regular reconciliation of international staff leave balance between e-leave and staff attendance records to ensure reliable year-end leave balance; and (c) review and reset the e-leave and electronic time management systems to ensure that automated reports for past dates leave balance are generated for monitoring and evidence checks for the audit trail.**

71. **UNRWA further agreed with the Board's recommendation to revisit the REACH and electronic time management system interface to ensure that all approved leave applications in the electronic time management system during payroll processing periods are automatically uploaded to the REACH system after release.**

5. Management of subsidies

Double payment of cash assistance to beneficiaries in the Syrian Arab Republic field office

72. UNRWA provides cash assistance to Palestine refugees to meet their basic needs, such as food and clothes. In the Syrian Arab Republic, each individual beneficiary receives an amount of 33,000 Syrian pounds ($64) for every three months.

73. The Board reviewed the management reports, payment sheets and cash distribution plan for the first, second and third quarters at the Syrian Arab Republic field office and identified 22 cases of double payments to some of the refugees. The management reports showed that the double payments were also identified through an internal verification exercise carried out by the finance office after receiving bank returns for the payments made as cash assistance.

74. The Board noted that the double payments were mainly caused by the lack of adequate controls in the emergency assistance management system to detect duplicate names and inadequate verification process of registration, whereby one family member was recorded with a different registration number in two families and received cash assistance in both families. The Board also noted inconsistence in recording data in the system, whereby some beneficiaries were recorded with only the first name, some with two names and others with three names. In addition, there were duplications of family registration numbers for 7,825 families in the first quarter, 7,834 families in the second quarter and 8,049 families in the third quarter. The Board also identified duplicate national identity documents on the payment sheet, whereby the money for two different families was collected by one person who presented the same identification number for both families.

75. From interviews with the management and verification of records in the system, the Board noted cases which suggested that the duplicate registrations were intentional as, in some cases, the same name was recorded twice with the omission of

certain letters, making them appear different, and the allocation of different registration numbers.

76. The Board was informed that the duplicate payments mostly occurred when a son and a daughter from two different families married and formed a new family without deactivating the names in their parents' families. In such cases, the woman appeared in both families as a wife in the new family and a daughter in the parents' family with a different number and paid in both identities. UNRWA attributed this deficiency mainly to the lack of a unified key identifier to map the data between the emergency assistance management system and the refugee registration information system, the main system. The Board was also informed that management had begun the process of removing duplicate cases through the reconciliation of data for each case, for which a joint mission between the Department of Relief and Social Services and the Information Management Department for the harmonization of the two databases would take place in the Syrian Arab Republic in the near future.

77. While acknowledging the management response on the duplicate payment, the Board considers that the duplicate payments are due to inadequate controls over the registration process in the emergency assistance management system database, which accommodates a person (refugee) into more than one family, and improper timing of the verification of the cash assistance distribution list as, currently, verification is performed after receipt of payment returns from the distributing banks.

78. **UNRWA agreed with the Board's recommendations that it (a) institute adequate controls over the registration process in the emergency assistance management system database and update the system with accurate and most up-to-date data to eliminate and prevent multiple registration of refugees while awaiting the roll-out of the refugee registration information system; (b) establish a unified key identifier to map the data between the emergency assistance management system and the refugee registration information system, while reviewing the feasibility of transferring the emergency assistance management system data to the refugee registration information system; and (c) perform data verification of the distribution list before submission to the banks for payments.**

79. **UNRWA also agreed with the Board's recommendations to (a) conduct investigation into the duplicate cases to confirm which were intentional and take necessary remedial action; and (b) recover the duplicate payments from the beneficiaries concerned from future distributions.**

Registration control and management of cash assistance transfers

80. In 2013, the Jordan field office introduced the Emergency Cash Assistance programme to provide cash assistance to least vulnerable and extremely vulnerable Palestine refugees from the Syrian Arab Republic on the basis of their eligibility categories. The assistance has been provided in the form of regular cash assistance, winterization and one-off emergency cash. The Board reviewed the quarterly distribution lists, data on such refugees from the refugee registration information system and the management information system for such refugees, and control procedures for the registration, database management and preparation of distribution lists. From the review, the Board noted the following deficiencies:

(a) Lack of standard operating procedures

81. The Jordan field office has no documented standard operating procedures to define controls procedures and establish the accountability and responsibilities of the staff involved from registration to the distribution of assistance, and on management of the database. Management at the Jordan field office stated that the preparation of standard operating procedures was in progress and was expected to be finalized in

2018. The Board considers that lack of well-defined procedures for the cash distribution process and the registration of Palestine refugees from the Syrian Arab Republic may expose the entity to the risk of fraud through duplicate payments.

(b) *Beneficiary distribution lists not supported by the system database*

82. The Jordan field office prepares a quarterly rations beneficiary distribution list from the main system known as the refugee registration information system under the emergency module. However, the actual number of paid beneficiaries is higher than that shown in the list because it includes 703 unregistered refugees[5] (see table 5) whose names and supporting documents were not in the refugee registration information system. The additional rations beneficiaries come from another system known as the management information system and are not registered in the refugee registration information system because they have no valid identity documents. The Board noted that this is contrary to paragraphs 2 and 3 of section IV-B of the UNRWA consolidated eligibility and registration instructions of 2014 which require refugees with no valid identification documents or passports to register their descendants provided that they have full written attestation from the UNRWA camp services officers in the area.

Table 5

Number of unregistered refugees per area in the Jordan field office

	Number of unregistered refugees	
Area	*Including "deactivated" refugees as at October 2017*	*Active as of October 2017*
Amman South	46	46
Amman North	170	151
Irbid	188	159
Zarka	299	282
Total	**703**	**638**

Source: Management information system for Palestine refugees from the Syrian Arab Republic.

83. The Board also found that no back-up had been done for the management information system database, and the field information management division had no control over the management information system, which is an internally developed desktop application installed on six computers, including four computers in four area offices.

84. Management stated that the payments were based on the number of accompanying persons, which includes both registered and unregistered refugees who lack valid identification documents. However, the Board still considers that it is clear in the consolidated eligibility and registration instructions of 2014 that for unregistered refugees without the valid identification, payments should be made through their registered descendants, provided that they have complete written attestation from the UNRWA Camp Services Officers in the area.

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[5] Unregistered refugees are those refugees who do not have complete legal documents for them to be registered in the refugee registration information system but are covered under protection cases and entered as accompanying persons in the system. Their names are not included in the system but only in the management information system.

(c) *Lack of internal checks*

85. At the Jordan field office, quarterly reconciliation of unregistered refugees are performed by the field emergency data analyst before payment is made. However, the reconciliation is based on the number of refugees per ledger system and not on individual refugees' names and personal particulars. The Board noted that the management information system records used to make payment are not linked to manual records, and the data analyst has limited access to the physical documents, which are maintained manually at the areas where the refugees live.

86. In addition, the refugee registration information system database included 74 active registered names for rations with incomplete information, such as a single name instead of a full name recorded. This is contrary to section IV-C of the consolidated eligibility and registration instructions of 2014, which require complete registration, based on the required official documents. In addition, one ledger system number was used by duplicate names in the list of unregistered refugees from the management information system. For example, in one of the cases, one name appeared twice as both the son and the husband of a registered woman. The Board was informed that all errors had been sent to the registration unit for further modification to resolve the problem noted.

(d) *Lack of segregation of duties in the approval process*

87. The registration and changes to the refugees' information were processed and approved in the refugee registration information system at the area level without any secondary approval at the field office level. The Emergency Coordination Unit and the Department of Relief and Social Services explained that the Field Eligibility and Registration Officer, who has the final approval at the field level is also responsible for emergency cases. However, the Board noted that the Field Eligibility and Registration Officer is not aware of those registrations and amendments carried out for emergency cases.

88. The Board considers that the field office needs to improve the existing internal controls while awaiting the relevant standard operating procedure. Inadequate controls over emergency cash assistance might result in duplicate payments and payments to non-existent refugees.

89. **The UNRWA-Jordan field office agreed with the Board's recommendation to work (a) in coordination with headquarters to develop a comprehensive standard operating procedure, which will set controls for emergency cash assistance from registration to the cash distribution process, (b) institute adequate controls over the registration database to enhance internal checks during registration and changes of records for existing refugees, (c) perform pre- and post-distribution verification to ensure that only the intended beneficiaries receive cash assistance, and (d) ensure that all unregistered refugees not included in the refugee registration information system are attested and registered for effective control.**

6. Procurement and contract management

Deficiency in the management of hospitalization service contracts

90. The Syrian Arab Republic field office has entered into hospitalization contracts with 21 hospitals in the Syrian Arab Republic to serve Palestinian refugees during referral and emergency cases during the year 2017. Paragraph 2 of the contracts requires the contract to enter into force upon the signature of both parties before 1 January 2017 and to end upon completion of the last obligation arising under the contract but not later than 31 December 2017.

91. During its audit the Board found that 17 out of 21 hospitalization contracts were signed after delays ranging from five to six months from 1 January 2017, while 2 of the contracts were not signed until they expired on 31 December 2017. In both cases, the hospitals started providing services to refugees without a binding contract. This is contrary to paragraph 11.2 of the UNRWA procurement manual (2015), which requires the contracts to be approved and signed by the Awarding Authority before provision of services starts. This is also contrary to paragraph 10.1 of the manual regarding the award and finalization of contracts which requires that, only after official award of contract by the relevant Awarding Authority, may a contractual obligation be entered into by UNRWA.

92. The Syrian Arab Republic field office attributed the delay in signing the contracts to rapid changes in the hospital management team (government hospitals), whereby the new management teams usually request from additional clarifications from the Syrian Arab Republic field office about the contracts. It also explained that delay in signing hospitalization contracts would be taken into consideration for the year 2018 onwards, as it was considering the possibility of contracting for open-ended contracts, for example of a duration of two to three years and with an annual renewal (confirmation) of contractual terms and conditions by official letter only. This will alleviate the risk of delays caused by revisiting the contractual terms and conditions when entering into agreement each year.

93. While acknowledging the management response, the Board is concerned that the use of hospitalization services without a binding contract might make it difficult for the Agency to enforce hospital performance or legal remedies in the event of contractual disputes.

94. **UNRWA-Syrian Arab Republic field office agreed with the Board's recommendation that it start procurement processes at the earliest possible time to provide time for unexpected negotiation on terms and conditions of the contracts with the government hospitals to ensure that the contract is signed in a timely manner.**

Inconsistency in Bids Evaluation Panels' decision for award

95. The Board reviewed samples of 15 service contracts and 10 goods contracts at headquarters in Amman and seven construction contracts at the Jordan field office. The Board noted two cases in these contracts whereby the tenders were awarded to the second-ranked bidders for reasons which were not part of the evaluation criteria, as detailed in the succeeding paragraphs.

Services contracts

96. In one of the cases, which involved an amount of $126,932.99 in respect of the tender for digital fundraising campaign, the reasons given were: the learning pace of the first-ranked bidder with respect to the Agency's specific issues would be slow and hence might delay implementation; the time difference between the Agency's location and the vendor's location; the vendor has never worked with UNRWA; and the vendor was perceived to be more competent at analysis than at digital fundraising campaign services. Therefore, the evaluation panel recommended that the tender be awarded to the second-ranked bidder, with a 64.76 aggregate (technical and financial) score, rather than the first-ranked bidder, with 69.20 aggregate score.

97. In another case, which involved an amount of $86,271.19 in respect of the provision of cleaning services for the premises of UNRWA headquarters in Amman, the tender was awarded to the second-ranked bidder, with a 79.8 aggregate score, rather than the first-ranked bidder, with an 80.8 aggregate score, on the ground of price differences. It was explained that the price of the first-ranked vendor was 22 per

cent higher than that of the second-ranked vendor. However, the decision was to be based on the aggregate score, and the price difference was not among the predefined criteria. The Board considers that UNRWA needs to be consistent in its tender award decisions by using predefined criteria instead of relying on the subjective judgment of the panel.

Goods contracts

98. From the review of 10 goods contracts at the headquarters in Amman, the Board found that in one tender (BC/41/20/17 with 14 shipments) relating to purchase of wheat flour, 2 out of 14 shipments were awarded to the second- and the third-ranked bidders. According to management, the tender was not awarded to the lowest bidder since the vendor had other contracts in progress with UNRWA and other organizations. The same reasoning was used to award shipment number 2 to the third-ranked bidder. The reasons provided were not part of predetermined evaluation criteria and UNRWA did not communicate with the first-ranked bidders to confirm their ability and capacity to execute the tender before they made the decision.

99. The Board also reviewed seven tenders at the Jordan field office and noted that one tender (CT/02/2017) for maintenance of UNRWA school buildings in the North Amman Area was awarded to the second-ranked bidder rather than the first-ranked bidder. The evaluation panel recommended the award to the second-ranked bidder on the ground that the first-ranked bidder had been awarded two contracts in two areas at the same time and was already engaged in two large projects with the Agency. The evaluation panel perceived that the risk of failure of delivery by the first-ranked bidder was high and therefore the decision was made to mitigate that risk. However, that consideration was not part of predetermined evaluation criteria and UNRWA did not communicate with the first-ranked bidder to confirm the bidder's capacity to execute all the tenders won. The Board noted that the first-ranked bidder had previously worked with UNRWA on several projects and that there was no evidence that the vendor had failed to execute any of the tenders awarded. In that regard, the Board considers that the decision not to award the tender to the successful bidder was not based on justifiable reasons.

100. The Board is of the view that the anomalies noted in all cases with regard to deficiencies in the selection decision whereby the decision to award is based on the bid evaluation panel's judgment, rather than on predefined evaluation criteria. In addition, UNRWA did not specify whether, further to technical and financial evaluation, the decision for award will be based on aggregate score, technical evaluation score or financial evaluation score. The Board considers that the elements of risk need to be factored in while setting the evaluation criteria, as they represent a significant part of the decision criteria.

101. **UNRWA agreed with the Board's recommendations that it (a) ensure that technical evaluation criteria are comprehensively set to take into account all technical factors and risks that may affect execution of the tender; and (b) clearly specify the determinant of the award decision, whether aggregate score, technical evaluation score or financial evaluation score, in order to avoid award decisions based on the bid evaluation panel's judgment call.**

Delays in delivery of goods

102. From the review of 203 sampled open purchase orders at headquarters in Amman and the field offices, the Board noted delays in the delivery of 191 purchase orders of periods ranging from 1 to 41 months. UNRWA attributed the delays to various factors, such as: delay in sending purchase orders to suppliers; amendment of purchase orders; inadequate follow-up with the supplier; suppliers' faults; a rejected

shipment with an unacceptable shelf life which needed to be deleted from the system; and restrictions by some of the host countries on import of the items procured.

103. The Board understands that some of the delays were caused by unavoidable factors. However, other factors, such as amendment of purchase orders, delay in sending purchase orders to suppliers and inadequate follow-up with the supplier, could be avoided through proper management intervention to ensure that goods are delivered without delays. Management should also update inaccurate information on purchase order delivery dates in the system and close the purchase orders which should have been closed to ensure that only valid purchase orders are being monitored in the system.

104. The Board is of the view that a joint monitoring and follow-up mechanism needs to be established between the Procurement and Logistics Division and end users once purchase orders are issued, to oversee the delivery cycle. Also, management at headquarters in Amman needs to charge liquidated damages[6] in accordance with section 15.2 of the Agency's general conditions of contract for the provision of goods for delays caused by suppliers, in order to enforce compliance with the terms and conditions of the contracts. Delay in delivery of goods and services affects service delivery to beneficiaries.

105. **UNRWA agreed with the Board's recommendation that (a) it establish a joint monitoring and follow-up mechanism between the procurement team and end users to oversee the delivery cycle once purchase orders are issued; (b) the Procurement and Logistics Division perform regular reviews of open purchase orders in the system to identify all cases of delay for close follow-up with the vendors, to minimize delay in delivery of goods, and close all purchase orders which should have been closed; and (c) it charge liquidated damages for all delays caused by suppliers in accordance with section 15.2 of the general conditions of contract for the provision of goods.**

106. **UNRWA also agreed with the Board's recommendation that it (a) ensure that purchase orders are sent to suppliers on time to avoid unnecessary delays; and (b) involve field procurement and logistics divisions in the project pre-procurement planning stage for the proper planning of delivery schedules and link the programme budget planning to procurement planning.**

Medical annual procurement plan

107. UNRWA classifies its medicines using activity-based costing analysis, whereby medicines are grouped according to annual value. Category A contains a small number of medicinal items (20 per cent) but accounts for a significant part of the cost (80 per cent) and category B comprises medical items that account for 15 per cent of the cost, while the remaining items (5 per cent of the cost) are classified as laboratory, dental and hospital supplies.

108. Paragraph 4.2 of the UNRWA procurement manual (2015) requires all buying sections to prepare and submit their annual needs to the Chief of the Procurement and Logistics Division by the end of January in each calendar year for further processing and approval. From the review of procurement activities at the Gaza field office, the Board noted that the field office submitted its annual requirements for medicines and laboratory supplies in March 2017 only after receiving instructions from the Agency's Director of Health, and the approved procurement plan was received at the field

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[6] Liquidated damage is 1 per cent of the delivered price of the delayed goods per day up to a maximum deduction of 10 per cent of the contract price.

offices in June 2017 after a delay of five months, contrary to the requirement of the procurement manual (2015).

109. The plan shows the dates for releasing the purchase requisitions and the purchase orders, as well as for receiving deliveries at the field offices. Delivery date is estimated on the basis of average monthly consumption, stock on hand and stock in transit. Expected delivery date depends on the timely release of purchase requisitions and purchase orders. Therefore, delayed release of purchase requisitions leads to delays in releasing purchase orders and in receiving goods at the final destination.

110. The purchase requisition release date for the second consignment of items of laboratory supplies as per the procurement plan was 10 August 2017 and for category B (medical items), 25 September 2017. However, as at November 2017, the purchase requisitions had not been released by the Gaza field office, and the Board was informed that the laboratory supplies would be delivered on 14 February 2018, while the medical items were expected to be delivered on 21 May 2018. During its physical verification of stocks in medical stores in November 2017, the Board noted that five laboratory supplies and two category B medical items had been out of stock since October 2017 and that the expected delivery dates would be delayed by 82 and 36 days, respectively, mainly owing to delays in releasing the purchase requisition.

111. Management at the Gaza field office explained that purchase requisition release is subject to permission from the Health Director at headquarters in Amman but that the Director of Health takes longer to issue permission, which contributes to the delay in releasing the purchase requisition.

112. The Board is concerned that, although the plan was approved and received in June 2017, implementation thereof was not yet started as at 31 December 2017, a delay of six months. The Board is of the view that, further to approval of the plan by the Director of Health, field offices should work closely with headquarters to ensure that implementation begins according to the scheduled dates. Delay in issuing purchase requisitions increases the risk of stock-out for laboratory supplies and category B medical items.

113. **UNRWA-Gaza field office agreed with the Board's recommendation that it (a) ensure that annual procurement plans for medicine and medical supplies are prepared by early January and submitted to the Chief of the Procurement and Logistics Division in the same month for further processing and approval as required under the procurement manual; and (b) work closely with the headquarters to ensure compliance with the established dates in the approved annual procurement plan by issuing purchase requisitions on time to allow the timely release of purchase orders to avoid the risk of stock-out.**

7. Medical management

Laboratory supplies with a short shelf life procured centrally by headquarters in Amman for the Gaza field office health centres

114. UNRWA entered into a long-term agreement with the Supplier vide contract No. 4317000025 of 15 March 2017 for the procurement of laboratory supplies (laboratory diagnostic instruments, reagents, controls and related products) for field offices, including the Gaza field office. Among the items supplied to the Gaza field office was Eightcheck control reagent, essential for conducting complete blood count tests, which has a shelf life of three months from the date of manufacture. The Board noted that the field office received the first shipment of 156 vials of the Eightcheck reagent costing $5,070 on 20 August 2017 from the supplier. However, only 56 of the vials were consumed across all 22 health centres before their expiration date on

2 September 2017, while the remaining 100 vials (costing $3,250 bottles) expired and were disposed of.

115. In addition, the Board noted that, on 28 September 2017, the Gaza field office received a second shipment of 240 vials (costing $7,944) of Eightcheck reagent from headquarters in Amman with a two-month shelf life (expiry on 25 November 2017). Consumption for October and November was 62 and 88 bottles, respectively, and therefore the remaining 90 bottles were likely to expire before being consumed. Accepting the reagents with a remaining shelf life of two months (64 per cent remaining shelf life) out of three months' shelf life from the date of manufacture is contrary to paragraph 9.1 of the UNRWA quality assurance policy for pharmaceutical products, which requires acceptance only of products with at least 75 per cent remaining shelf life.

Price difference between long-term agreement and the local market for the Eightcheck control reagent

116. The Board noted two purchase orders for Eightcheck control reagents with different unit prices, whereby PO No. 5016004370 of 19 December 2016 raised by the Gaza field office to a local supplier indicated a unit price of $11.3, while PO No. 6017001289 of 22 October 2017 from headquarters in Amman through a long-term agreement for the same item indicated a cost of $33.1 per unit. This is a variation of $21.8 per unit, or 193 per cent higher than the price on the local market.

117. The Board also noted that the Gaza field office procured 378 vials of Eightcheck control reagent on the local market to avoid stock-out of the item. A total of 60 vials were to be delivered in December 2016, 126 vials in March 2017, 126 vials in June and 66 vials in September 2017. The field office did not experience late delivery or expiry of items procured on the local market, compared with consignments received from headquarters in Amman with the long-term agreement supplier. Also, while the locally procured Eightcheck control reagent had a shelf life of two weeks after opening, items procured at headquarters in Amman had a shelf life of only one week after opening.

118. UNRWA stated that the Agency has a long-term agreement (five years) with the long-term agreement supplier that includes supply of laboratory diagnostic instruments, reagents, controls and maintenance and supply of spare parts for the instruments. It also argued that the prices of consumable materials such as reagents and controls include other services, so it cannot be compared with local market prices which cover only the cost of the reagent. Thus, continuing to purchase the long-term agreement supplier's products has other benefits (technical) to the Agency's laboratory services.

119. The Board is of the view that, when an item is ordered centrally by headquarters in Amman, it is likely that it will expire before being fully consumed, as a result of its shorter shelf life, due to a longer delivery time to the Gaza field office. The Board also considers that there is a need for transparency in the pricing of Eightcheck reagent by differentiating the price of the items from other components such as delivery and installation costs, maintenance and repair costs relating to analysers, which can be charged separately because they do not occur frequently, as compared with the weekly consumption of the Eightcheck reagent.

120. **UNRWA-headquarters in Amman agreed with the Board's recommendations that it (a) conduct a cost benefit analysis by allowing the Gaza field office to enter into long-term agreements with local suppliers to procure Eightcheck control reagent, to avoid expiration of items before consumption due to longer transportation time and border entry restrictions when using a long-term agreement from headquarters in Amman; (b) review the long-term agreement and liaise with the supplier to separate the reagent price from the price of other**

services which do not occur frequently, to increase transparency and reduce the unit cost of the item; and (c) ensure compliance with the UNRWA quality assurance policy for pharmaceutical products by accepting only medicine and medical supplies which have at least 75 per cent remaining shelf life at the time of arrival in the country of destination.

Inadequate quality of medicines and medical supplies

121. In paragraph 3 of the UNRWA quality assurance policy for pharmaceutical products (2015), quality assurance is defined as the totality of the arrangements made to ensure that pharmaceutical products are of the quality required for their intended use. Also, outlined in paragraph 44.2 in chapter 44, Medical stores management, of the WHO Essential Medicines and Health Products Information Portal are procedures to be followed upon receiving goods (medical supplies) in the warehouse/store area whereby the shipment should be quarantined, inspected and, if found to be acceptable, then entered into the stock-recording system. A prompt and thorough inspection based on predefined specifications is essential to quality assurance. Headquarters in Amman, through the Procurement and Logistics Division, procures medical supplies centrally on behalf of all field offices through long-term agreements with different medical manufacturers/suppliers. From the review of the quality control process for the medicines and medical supplies procured, the Board identified the following deficiencies, indicating the need for management intervention for improvement.

122. *At the Gaza field office*: The field received four types of essential medicines from the Procurement and Logistics Division at headquarters in Amman, namely paracetamol syrup, paracetamol suspension, azithromycin suspension and methyldopa tablet. During the site visit to the medical store at Karne warehouses, the Board noted a destruction certificate for all 3,282 packets of 10 x 10 tablets (100 tabs) of methyldopa which had been detected at the port as defective before being received by Gaza central pharmacy. In addition, while some defective medicines were awaiting disposal, other medicine items identified as defective were dispensed and consumed by patients (see table 6).

Table 6
Defective medicine and medical supplies received

Description	*Defective quantity received*	*Quantity consumed by patients*	*Percentage of consumption*	*Quantity awaiting disposal*
Paracetamol suspension ordered by headquarters in Amman through long-term agreement	113,750 bottles	36,105 bottles	32	77,645 bottles
Paracetamol syrup ordered by headquarters in Amman through long-term agreement	578,747 bottles	40,814 bottles	7	537,933 bottles

Description	*Defective quantity received*	*Quantity consumed by patients*	*Percentage of consumption*	*Quantity awaiting disposal*
Methyldopa tablets ordered by headquarters in Amman through long-term agreement	3,282 packets	–	–	The medicines were not dispensed after detecting the defects
Azithromycin suspension ordered by headquarters in Amman through long-term agreement	16,610 bottles	2,063 bottles	12	14,547 bottles

Source: Gaza Central Pharmacy data.

123. Furthermore, the rejected paracetamol suspension resulted in stock-out for two months at the central pharmacy and all the 22 health centres, while azithromycin suspension and paracetamol syrup were substituted by alternative generic items from other manufacturers. The suppliers agreed to replace all the rejected medical supplies with other shipments to the Gaza field office through long-term agreements entered into with headquarters in Amman.

124. The Gaza field office informed the Board that, upon receipt of goods purchased on the local market, the central pharmacy conducts a physical inspection and quality control tests for all medical supplies and batches before entering the consignments into the stocks. Medicine and medical supplies procured through headquarters in Amman are considered as accepted unless a poor quality indicator is observed by physical inspection upon receipt. The Gaza field office believes that headquarters in Amman conducts pre-qualification for suppliers, with specific criteria and qualifications, and purchases the items from qualified international suppliers from countries applying standards set by a stringent regulatory authority to medicines. It also explained that it is not recommended by the technical advisor to conduct quality control testing for all the supplied batches received through procurements by headquarters in Amman, but where there is a doubtful case, quality control testing is normally conducted. Despite the explanations provided, the Board found that there are no clear procedures from the headquarters in Amman on how to deal with such cases.

125. **At the West Bank field office**. During 2016 and 2017, the field office received a number of defective essential medicines from the Procurement and Logistics Division at headquarters in Amman, some of which were dispensed to clinics/health centres for consumption before it came to the attention of the Field Pharmaceutical Services Officer that the medicines did not meet the required standard. The Board noted that, out of 70,000 bottles of paracetamol suspension ordered and received by the field office, 35,000 bottles had various defects and were not dispensed to clinics/health centres. In addition, other medicines with defects were noted, some of which were dispensed to health centres and consumed by patients (see table 7).

Table 7
Defective medicine and medical supplies received

S/N	*Description*	*Quantity received*	*Quantity consumed by patients*	*Percentage*	*Quantity remaining*
1	Paracetamol syrup ordered by headquarters in Amman through long-term agreement	206,644 bottles	25,622 bottles	12	181,022 bottles
2	Azithromycin suspension ordered by headquarters in Amman through long-term agreement	4,339 bottles	1,653 bottles	38	2,686 bottles
3	Methyldopa tablets ordered by headquarters in Amman through long-term agreement	462 packets	–	–	The medicines were not dispensed further to detection of the defects
4	Co-Amoxiclav oral suspension ordered by headquarters in Amman through long-term agreement	6,861 bottles	3,390 bottles	49.4	3,471 bottles

Source: West Bank field office central pharmacy data.

126. Furthermore, as a result of the rejection of paracetamol syrup and paracetamol suspension, the West Bank field office experienced stock-out for these items for three months at the central pharmacy and all clinics/health centres, while replacements for the Methyldopa tablets were received from the supplier with the same quantity as ordered. The Board also noted that the procedures for physical inspection and quality control tests for medicines which are centrally procured differ from one field office to another. For example, at the Gaza field office, testing the medicine and medical supplies procured centrally is optional, while at the West Bank field office, it is mandatory on a sample basis.

127. The West Bank field office stated that quality inspection is a primary action carried out by the Field Pharmaceutical Services Officer at the central pharmacy through physical quality inspections and, if necessary, they send the sample to laboratory for quality control testing. The West Bank field office believes that headquarters in Amman has procedures for inspecting the quality of items procured before shipping them to the field. However, in its inquiries, the Board noted that headquarters in Amman also lacks procedures for inspecting the quality of medicine and medical supplies procured.

128. The Board is of the view that the quality of medicine was supposed to be observed during the medical quality test and assurance by the central pharmacy at all field offices through independent quality control testing or by engaging a trusted authority/laboratory to be responsible for drug testing and certification before acceptance and distribution to health centres. The distribution of defective medicines may cause health issues to patients and tarnish the image of the Agency.

129. **The Board recommends that UNRWA (a) introduce an independent quality control testing mechanism for medicine and medical supplies in field offices, as in the case of basic commodities, to ensure the quality of medicine and medical supplies received from suppliers prior to acceptance; (b) seek contractual remedies from the suppliers of these medicines in accordance with article 5.7 of the Agency's general conditions of contract for the provision of goods; (c) include**

independent quality control testing at the point of pre-shipment and post-shipment in the UNRWA quality assurance policy for pharmaceutical products; and (d) harmonize the procedures for physical inspection and quality control tests at all field offices for medicines procured at headquarters in Amman.

130. UNRWA headquarters in Amman agreed to include independent quality control testing at the point of pre-shipment and post-shipment in its quality assurance policy for pharmaceutical products by the end of the third quarter of 2018 and will take appropriate action against the suppliers in accordance with articles 5 and 15 of the Agency's general conditions of contract for the provision of goods.

Inadequacy of e-health system operation

131. On 30 January 2017, UNRWA entered into a funding agreement of $178,000 with UNICEF to strengthen the e-health system in Lebanon health centres. According to the project performance report for the third quarter of 2017, UNRWA experienced frequent power outages which affected the operation of the system and the provision of medical services to beneficiaries.

132. The Board visited one area office and three health centres in Lebanon and noted that e-health could not produce accurate reports because the reporting module in the system was not finalized. For instance, the health-care provider's workload report, which is used to establish the number of patients attended per doctor most of the time, shows the number of patients attended as lower than the actual number. Users at health centres also face the problem of accessing patients' records from other health centres if a patient needs a consultation in an emergency at a health centre other than that at which the patient is registered. In addition, the Board noted problems in network connectivity, a key aspect of the operation of the e-health system, thus impacting the delivery of services to patients, in particular in the dispensing of medicines, which is carried out electronically.

133. The Board was informed that the field office had made efforts to reduce power outages, including the installation of solar panels at two health centres, and was in the process of procuring more solar panels for the remaining 25 health centres. Management also explained that the field office had informed headquarters in Amman with regard to intervention in the issue of inaccurate system-generated reports and the network connectivity problems. The Board is concerned that the problems of power outages, network connectivity, inaccurate management reports from the e-health system and the inaccessibility of records of other health centres affected service delivery to beneficiaries.

134. **The Board recommends that UNRWA-Lebanon field office (a) expedite implementation of the contract of solar power installation to avoid the problem of power outages; (b) finalize the reporting module to generate accurate management reports from the e-health system and find an appropriate solution to the access problem for records of other health centres; and (c) resolve the network connectivity problem in order to provide reliable and appropriate service to beneficiaries.**

8. Microcredit community support programme

Late fees not charged on late payment of the loans

135. Paragraph 12.2 of the microcredit community support programme guidelines (2012) requires UNRWA to charge a late fee of 5 per cent of the total value of the latest due instalment for repayments made beyond five working days from the due date. The loans portfolio at Lebanon as at 30 October 2017 included loans amounting to $330,331 to 63 clients which were guaranteed by non-UNRWA staff members and

remained outstanding for periods ranging from 30 to 1,080 days, but the 5 per cent late fee had not been charged as required under the microcredit community support programme guidelines. Management stated that late fees mentioned in the guidelines were up to 5 per cent, but that, in the Lebanon field office, it had been agreed by management to collect 2 per cent only and that this was reflected under clause 6 of the loan agreement signed between UNRWA, the client and the guarantor. These changes would be reflected in the amendment to be made in the guidelines.

Loans in arrears not collected

136. The Board reviewed a sample of 10 defaulters' files at the Lebanon field office, which included arrears amounting to $97,212. The Board noted that, despite the follow-up by UNRWA with the guarantors of loan defaulters to pay for the outstanding amount, the guarantors did not respond and no legal action was taken, despite the fact that they had signed legal documents. Further review of the 10 defaulters' files found no evidence to confirm that the field office had evaluated the eligibility of the guarantors, including their sources of income. This is contrary to section 5 of the guideline (2012), which indicates the criteria for acceptable guarantors.

137. The Board was informed that those guarantors who are private companies and employees of non-governmental organizations refuse to present any evidence of their monthly income, but that the Lebanon field office intends to reduce the percentage of loans guaranteed by non-UNRWA staff members to not more than 25 per cent of the total outstanding portfolio in order to reduce the risk. However, the Board is of the view that control is inadequate as it accepted guarantors who refused to produce eligibility evidence, such as monthly income, and therefore increased the risk of providing loans to risky clients. Long-outstanding loan arrears with no legal action taken for their recovery are at risk of becoming unrecoverable and may ultimately become uncollectable.

138. **UNRWA agreed with the Board's recommendations that it: (a) closely follow up with the guarantors of loan defaulters to recover the long-outstanding loan and liaise with the legal office for legal advice, including enforcement of legal action against the guarantors; (b) perform eligibility analysis prior to granting the loan and avoid granting loans to clients whose guarantors refuse to provide monthly income evidence, with a view to reducing the recoverability risks in case of default by clients; and (c) amend the microcredit community support programme guideline of 2012 to reflect the change in the late fee, from 5 per cent to 2 per cent.**

Deficiency in the loan management information system

139. UNRWA-Lebanon field office entered into contract with a service provider (contract No. SC-E-33/RO89/2014 of 14 May 2014) for development of the web-based management information system to manage the loan portfolio and overall programme performance. The agreed contract sum was $23,100 for the period from 2 June 2014 to 21 September 2015, and one year of maintenance and system support. The contract period was extended from time to time, and, on 1 January 2016, UNRWA and the contractor agreed to extend the contract until completion of the final obligation under the contract, under the same terms and provisions as in the initial agreement, without any extra costs on the part of UNRWA. The system went live in May 2017.

140. However, the Board noted that the system does not produce loan management reports as agreed under paragraph 3.2.1 (b) of the contract, which requires the system database to contain loan application, loan disbursement, loan instalment, repayment, delinquents, portfolio at risk, monitoring and review reports. Management stated that

the implementation phase of the loan management information system had been completed and that the vendor had begun the maintenance and support phase. Management also explained that, during this phase, it would follow up with the vendor to ensure completion of all its obligations under the contract.

141. The Board considers loan management reports to be an important and mandatory aspect of the loan management during the implementation phase of the loan management information system. Inability of the system to produce important reports may adversely affect better management of loan portfolios and deprive the management of a crucial basis for decision-making.

142. UNRWA-Lebanon field office agreed with the Board's recommendation that it ensure that all important reports mentioned in the contract are configured in the loan management information system for better management of the microcredit community support programme loan portfolio.

9. Programme and project management

Lack of a project workplan

143. In paragraph 4.2 of the project process manual (2011) a project workplan is identified as a tool that provides an integrated road map of the project life cycle. The project workplan focuses on sequencing and dependencies of activities, time frame and the individuals responsible for different activities, as well as providing a proactive approach to identifying project risks, mitigation measures and setting milestones to enhance project monitoring. The Board reviewed 13 projects with a total cost of $33.51 million at the Jordan field office and found that six projects with a total cost of $15.12 million had been implemented without a workplan. Of the six projects, three had been completed, while the other three were in progress.

144. Management attributed the failure to prepare the workplan to inadequate staffing, and the lack of a field project office to provide an effective project management function for the coordination and supervision of project implementation and ensure that all documentation is prepared for compliance and monitoring. The Board found that the project management function was scattered among user departments and that there was no coordinated project management function. That situation leads to some of the projects being implemented on an ad hoc basis without documented workplans. The Board considers that a documented project workplan is a vital tool for the effective monitoring of project activities and the tracking of deviations from project activities in terms of implementation time and for indicating stakeholders responsible per activity for accountability.

Project progress report not prepared

145. In paragraph 6 of the project process manual (2011), project monitoring and reporting is identified as an essential component of successful project management. It assists management to confirm whether the project is progressing effectively and resources are used efficiently. Through it, project performance is observed and measured regularly to identify variances from the project management plan and budget, which provides a basis for informed and timely decision-making.

146. During the period from January to October 2017, the Jordan field office was implementing a total of 93 active projects. From the review of the sample of 13 projects, the Board noted that four projects, with a total cost of $13.74 million, were not supported by progress reports to indicate the progress of the project over time for informed decision-making, contrary to the requirement of the manual.

147. Management stated that project progress reports formed part of every agreement with donors, but that the frequency of reporting was not the same for all projects and

depended entirely on the signed agreement (i.e., some projects required a project progress report every six months, others required one report at the end of the project and one after the completion of the project). However, the Board noted that the agreements for the noted projects did not contain an express requirement for the submission of progress reports. Given the role of progress reports in decision-making about the project implementation, the Board is of the view that the Jordan field office needs to prepare progress reports at regular intervals for internal management decisions about the progress of the implemented projects.

148. **The Board recommends that UNRWA-Jordan field office (a) ensure that project workplans are developed and documented prior to implementation of the projects; (b) develop and implement a plan to put in place a field project office equipped with appropriate level of staff; and (c) ensure that project progress reports are prepared at regular intervals for all projects for monitoring the progress of the project and accountability for the resources utilized.**

Inactivity of the Project Review Committee

149. The UNRWA Project Review Committee was established by organizational directive No. 21. The Committee is chaired by the Deputy Commissioner-General and comprises representatives from the External Relations and Communications Department, the Department of Planning, the Department of Finance and other members that the Deputy Commissioner-General may appoint. Among its other roles, the Project Review Committee is expected to review, in consultation with programme departments, project outlines/proposals to:

- Ensure alignment with the Blue Book, the UNRWA medium-term strategy and the relevant strategic plan, annual operation plan and emergency appeal.
- Assess the proposal formulation (i.e., the validity of the project intervention logic/sustainability).
- Assess overall suitability for inclusion on the Agency's list of priority projects to be used by the External Relations and Communications Department for fundraising.

150. In accordance with its terms of reference, the Project Review Committee was established from 1 January 2016 and is required to meet during the fourth week of every month. However, in 2017, the Committee had not met. UNRWA had a total of 427 active projects with a total cost of $981.36 million, and the Committee was expected to have a crucial role in the effective and efficient management of those projects through its meetings. While management explained that the Committee met once in 2017, no evidence was provided to substantiate the explanations. Management also explained that the Committee would begin its activities in the near future and that management planned to strengthen project management across the Agency in 2018, through the establishment of a strategic project management office in the Department of Planning. This would include stronger oversight of project formulation and approval (through the Project Review Committee) and continued monitoring of project performance (through the Projects Assessment Committee).

151. The Board is of the view that the inactivity of the Project Review Committee implies that it will be difficult for the Agency to align project design and implementation with the budget, the medium-term strategy, the annual operation plan and the Emergency Appeal which might consequently delay approval of the Project Assessment Committee decision.

152. **UNRWA agreed with the Board's recommendation that it operationalize the Project Review Committee and ensure that it performs its responsibilities effectively.**

Delay in issuing closure memorandum by the External Relations and Communications Department

153. During the period under review, the Agency grant project tracker[7] included 427 active projects and 794 expired projects. Of the expired projects, 241 (30 per cent) had been reported as closed by the External Relations and Communications Department, while 553 (70 per cent) were pending closure memorandum from the Department. The Board found that, of the 553 projects pending closure memorandum, 237 (43 per cent) had been pending for periods ranging from 6 to 23 months.

154. Various reasons were provided by the External Relations and Communications Department for the delay and for not issuing a closure memorandum, including delay in the preparation of financial reports by the Finance Department, pending response from the donor as to the refund or reprogramming of the remaining fund balance, pending donor's response on remaining pledge, delay in the submission of claims to donors, delay in informing donors about the remaining fund or accrued interest and its treatment; and pending HQ Finance Department to provide final financial statements or confirm the final fund balance to the Department. In addition, UNRWA attributed the delay in issuing a closure memorandum to factors such as the need for full compliance with all operational and reporting requirements and receipt of clear guidance or advice from a donor on the treatment of the remaining fund balance and the accrued interest, if any.

155. The Board considers that the delay in issuing a closure memorandum is due mainly to the lack of a specified time frame in the project process manual (2011) with regard to accountability as to when the External Relations and Communications Department is required to issue a closure memorandum, and the Finance Department is required to issue final financial reports; confirmation of fund balance; and submission of claims to the donor after completion of the project operations.

Projects closed by the External Relations and Communications Department but still active in the REACH system

156. The Board noted that the 241 projects reported as closed by the External Relations and Communications Department in the project tracker included 57 projects still active in the REACH system. As at November 2017, the 57 projects had been active for periods of 3 to 24 months from the date at which they had been indicated by the Department as being closed. The Department records showed that Management had issued instructions to the Finance Department to close all projects with zero balances and final financial statements, as well as the projects which had already made the required refunds to donors. However, of the 57 projects, only two had an unspent fund balance, of $54,362, while the remaining 55 projects had a zero balance. The Board is of the view that the delay in closure of projects in the REACH system is due to the lack of a specified time frame in the project process manual (2011) as to when a project must be closed after operational closure once it has met all the reporting requirements. Delayed closure of operationally closed projects increases the risk of unspent balances being misused.

Projects budget not allocated in the REACH system

157. The Board also noted that the 427 active projects in the project tracker included 222 (52 per cent) projects indicated as not having been implemented (zero burn[8] rate), although the planned completion period had already expired. The projects had a free

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[7] Project tracker is an Excel sheet which tracks and summarizes the status of all Agency projects for informed decision-making.

[8] Burn rate refers to actual expenditure divided by the total fund allotment for the project.

balance of $8.44 million which was reported not to have been allotted to the relevant project activities in the REACH system to allow utilization of the fund for periods ranging from 3 to 46 months.

158. The Board was informed that funds are not allotted until work breakdown structures for activities in the REACH system are created for the project and the budget breakdown is subsequently provided in line with the work breakdown structures. The same applies in case there is change in project scope while negotiations are ongoing with the donor and in cases where the grant is treated as cost-reducing for the programme budget. The Board is concerned that the protracted delay in fund allocation, for periods ranging from 3 to 46 months, might result in the return of funds to the donors while the Agency is experiencing financial difficulties.

159. **The Board recommends that UNRWA (a) document the average time frame for the issue of a closure memorandum by the External Relations and Communications Department after the operational closure of a project for projects which are supposed to be closed and the time frame for administrative closure and financial closure of a project in the system for accountability among the accountable stakeholders; (b) ensure close follow-up in respect of unallocated balances where communication with the donor is needed for reprogramming, refund or transfer to another fund code to allow closure of the projects; (c) close all projects in the system which were indicated by the Department as closed in the project tracker; and (d) develop a work breakdown structure to allocate the pending project fund balance, to avoid the risk of returning the contributed funds to the donors.**

160. **The Board also recommends that UNRWA enhance communication between the External Relations and Communications Department, the Finance Department and the Department of Planning, to ensure the smooth monitoring of project implementation and timely processing of pending financial and other reports so as to expedite project closure.**

10. Information and communications technology

Inadequate information and communications technology strategic planning model

161. The UNRWA Information Management Department has developed a six-year information and communications technology (ICT) strategy for the Agency, from 2018 to 2024. The strategy contains eight strategic objectives with corresponding guiding principles, strategic outcomes and targeted year of accomplishment. However, the Board noted that the Agency has not developed key performance indicators to be used to measure the achievement of strategic objectives. Additionally, no risks had been identified in relation to the strategy conceived, and consequently no risk mitigation measures had been developed.

162. UNRWA commented that, although the ICT strategy had been approved, it would be implemented in 2018 because the Information Management Department is still in discussion with all stakeholders and proper communication strategy is yet to be finalized between the Information Management Department and ICT Board. That was the reason why there were no key performance indicators developed as well as risks and its corresponding mitigation. However, no evidence was presented to confirm that key performance indicators and risk mitigation are part of the implementation plan. The Board considers that the noted deficiency is a result of lack of an adequate ICT strategic planning model. The proper strategic planning model such as balanced scorecard or logical framework (logframe) approach would have helped management to obtain a holistic picture of the strategic management process and bring all the key strategic management components together for effective strategy communication and implementation.

163. **The Board recommends that UNRWA (a) adopt and implement an appropriate strategic planning model to assist management to obtain a holistic picture of the strategic management process and bring all the key strategic management components together for effective strategy communication and implementation; and (b) develop key performance indicators to measure the achievement of the strategic objectives.**

Ineffective enforcement of access control policy

164. From the review of user access rights in the REACH system, the Board found that one staff job title was changed in July 2017 but that the staff member concerned still has the approval roles in the REACH system relating to the previous job title. This is contrary to the access control policy of 2017, which requires the administrator to close the staff access rights of a previous account upon a change in employment status.

165. The Board is of the view that the deficiency noted is due mainly to inadequacies in coordination and communication between the user's department and the administrator in the Information Management Department, as information about the change of staff employment status is not communicated to the administrator for system updates. Inadequate enforcement of the access control policy increases the risk of granting access to unauthorized end users, which might result in inappropriate use and compromise the integrity of information in the system.

166. **The Board recommends that UNRWA (a) identify all staff who have changed their employment status, and disable their accounts in the REACH system; and (b) develop a user accounts review procedure that will require periodic review of the access rights attached to user accounts, to ensure that no staff are given access rights to the system that do not fit their current job requirements.**

11. Department of Internal Oversight Services

Review of the operations of the Advisory Committee on Internal Oversight

167. The Board reviewed the operations of the Advisory Committee on Internal Oversight through review of the Committee's annual report for 2016, the minutes of its meetings of 2017, interviews and questionnaires, to ascertain whether the operations of the Advisory Committee are in line with organizational directive No. 24, revised in January 2016, and best practice. The Board noted that there was scope for improvement in the following areas.

Confidentiality statement

168. Section 22 of organizational directive No. 24 requires members of the Advisory Committee on Internal Oversight to sign a confidentiality statement at the time of taking up their appointments to the Committee. However, the members of the Committee do not sign the confidentiality statement at the time of taking up their appointments to the Committee, contrary to the requirement of the organizational directive. The Board was informed that the Advisory Committee was planning to introduce such a practice and that it had already communicated with the Legal Department with regard to the design of a confidentiality template. Given the sensitivity of the information provided to the members of the Advisory Committee, it is crucial that they sign the confidentiality statement for accountability.

Performance assessment of the Advisory Committee on Internal Oversight

169. Section 31 of organizational directive No. 24 requires the Advisory Committee on Internal Oversight to conduct an annual self-assessment of its performance and the Committee may request periodic external reviews to ascertain whether its activities compare favourably with best practices adopted by the oversight committees of similar United Nations bodies, the results of which will be communicated to the Commissioner-General. However, the Committee has not been conducting an annual self-assessment of its performance, as required by organizational directive No. 24. The Board was informed that it was planning to include the matter in the agenda for the Committee meetings in December 2017. The Board is of the view that the annual self-assessment assists the Commissioner-General to determine how effectively it discharges its functions.

Appointment of members of the Advisory Committee on Internal Oversight and its review process

170. Section 7 of organizational directive No. 24 stipulates that the members of the Advisory Committee on Internal Oversight will be appointed by the Commissioner-General after consultation with the Chairperson of the Committee and the Director of the Department of Internal Oversight Services. The Board noted that, during the year under review, one new member was appointed to replace a member whose tenure ended in July 2017. However, no evidence was available to show that the selection and appointment process was carried out in a transparent manner, as there is no documented process on how the Agency obtains the list of candidates for appointment, how the review and selection process is carried out or how competitive it is. This is a gap in organizational directive No. 24, as it is not set out how the selection process for new members is to be carried out or how to attract potential candidates. The Board was informed that the Advisory Committee and the Director of the Department of Internal Oversight Services put forward names and that they consulted internally as appropriate and made proposals to the Commissioner-General for approval. However, their responses were not supported by documented evidence to substantiate this, and it was also uncertain as to how and where the list of candidates was obtained. The Board is of the view that, in order to ensure an unbiased selection process, competitiveness and transparency, the Agency needs to document the process, from seeking candidates to the selection decision.

171. **The Board recommends that UNRWA (a) ensure that the Advisory Committee on Internal Oversight conducts annual self-assessment of its performance as required by organizational directive No. 24; (b) design a confidentiality template form and ensure that members of the Advisory Committee sign the statement of confidentiality for accountability; and (c) review organizational directive No. 24 and incorporate the appointment process, including ways of seeking candidates for appointment, the review process and the selection decision, to ensure an unbiased, competitive and transparent selection process.**

Instability of the Department of Internal Oversight Services

172. Internal oversight services is an important function in any organization. In UNRWA, the Department of Internal Oversight Services fulfils its oversight roles through its four divisions, namely, assurance and advisory services; evaluation; ethics; and investigation. The head of Internal Oversight Services is responsible for directing the medium- and long-term strategies to support the implementation of internal controls; it is, therefore, important to maintain stable leadership in the Department.

173. In its previous report, the Board highlighted the high rate of staff turnover in the Department of Internal Oversight Services (see A/72/5/Add.4, paras. 139 and 194). For the year under review, the Board noted limited improvement in that area. For example, a total of five directors had been recruited to lead the department over the previous five years and, as at the time of audit in April 2018, the current director, who had been recruited in November 2016, was also in the process of separating from the Agency.

174. The Board considers that the lack of a longer-term solution for the leadership of the Department affects the stability of internal audit activities and hence the effectiveness of the audit functions. Considering the size and complexity of UNRWA, the scale of its activities, the financial constraints and other risks, a stronger internal audit function is a necessity. There was therefore a need for the Agency to seek alternative solutions to stabilize the leadership of the Department and its staffing.

Assurance and Advisory Services Division

175. The Assurance and Advisory Services Division is underresourced by comparison with other United Nations agencies, according to the statistics in the report of the Joint Inspection Unit of 2015 (JIU/REP/2016/8). Compared with other United Nations organizations, UNRWA has the lowest proportion of internal audit service staff to all staff, at 10 staff to 31,255 total staff, equivalent to 0.03 per cent, compared with an average of 0.51 per cent across the United Nations system.

176. For the year 2017, the Assurance and Advisory Services Division completed only 11 (50 per cent) of 22 planned assignments. The backlog of the assignments were carried over to 2018, whereby the whole of the first quarter of 2018 was used to complete the assignments carried over, instead of the tasks earmarked in the 2018 workplan. The slow pace in completion of assignments in the workplan for 2017 was mainly attributed to the limited number of staff: for instance, from January to June 2017, only one out of four international staff (P-4) required under the organization structure of the Department was in post. That staff member was also acting as the Chief of the Division.

177. The Board is of the view that, owing to the challenges of high staff turnover in the Department of Internal Oversight Services, the Agency needs to review staffing structure of the division with a view to align it with the complexity and growth of the Agency to ensure that the objectives of the Department are fulfilled. As part of strengthening the division, management explained that the Assurance and Advisory Services Division is developing the audit methodology framework with the internal audit manual, which will serve as road map to conduct future assignments.

178. **The Board recommends that UNRWA (a) consider exploring an alternative resource deployment strategy in the Assurance and Advisory Services Division to strengthen the Division and ensure sufficient coverage of high-risk areas identified and comply with the annual audit plan, and (b) review the staffing structure of the Division to align with the complexity and growth of the Agency.**

Investigation Division

Delay in completion of investigation of cases

179. The Investigation Division has four international staff and two area staff. The Board noted that the number of fraud cases increased from 32 cases reported in 2016 to 58 cases in 2017. Of the 32 fraud cases reported in 2016, only 15 cases had been completed, while 17 cases were still pending as at 31 December 2016. Likewise, only 25 out of 58 (43 per cent) fraud cases reported in 2017 had been completed as at the year end. Management attributed the pending backlog of cases to an inadequate

number of staff to deal with the cases. The Board was informed that the Department of Internal Oversight Services was in discussions with management regarding a proposed new investigation model (centralized or decentralized) which, when implemented, was expected to reduce the backlog of cases and ensure that current investigations are completed on time. At present, investigation of most fraud cases takes more than six months to complete.

Fraud awareness training to staff

180. The UNRWA anti-fraud and anti-corruption policy requires the Department of Internal Oversight Services to raise awareness about the risks of fraud and corruption by conducting training for the Agency personnel. However, since the establishment of the policy in 2016, the Agency had conducted no fraud awareness training for its staff. The Board was informed that, in 2017, the Department of Internal Oversight Services had prepared awareness training programme for staff but that it was deferred to 2018 owing to shortage of funds. It was also explained that the 2018 workplan for the Ethics Office included the development and delivery of face-to-face anti-fraud and anti-corruption training. The main focus would be on managers and supervisors, finance, human resources, engineering and procurement staff across the fields of operation. The Board considers that awareness training for staff is essential for creating awareness among staff about the risk of fraud, corruption and the appropriate model for communicating fraud and corruption incidents.

181. **The Board recommends that the UNRWA-Department of Internal Oversight Services expedite discussion with management on the most appropriate model so as to minimize delay in the completion of investigation cases.**

182. **The Board also recommends that UNRWA conduct awareness training for its staff on fraud and corruption.**

12. Microfinance Department

183. The Microfinance Department is a small programme within UNRWA that provides credit facilities to micro-entrepreneurs. The activities and balances of the Department for 2017 have been included in the Agency's financial statements for 2017. The Department prepares its own set of financial statements, under the International Financial Reporting Standards, which are audited separately by the Board.

Financial performance

184. The Department continues to improve its performance by recording positive net income over the past three years. In 2017, the Microfinance Department reported a net income of $3.01 million (2016: $2.23 million), reflecting an increase of $786,830 (35 per cent), compared with the net income reported during the previous year. The increase in net income was due mainly to the increase in interest on loans by $814,277 (8 per cent); and a foreign exchange gain of $288,191 (2016: loss of $369,159). The Board has audited the Department's financial statements for 2017 and issued an unqualified opinion.

Management of loans receivable

185. In 2017, the Department issued loans amounting to $38.56 million (2016: $39.78 million) and received repayment on outstanding loans of $36.43 million (2016: $36.08 million). Provisions on outstanding loans as at 31 December 2017 were $1.26 million (2016: $945,982), while the amount of loans written off was $960,981 (2016: $907,811). The closing loan balance as at 31 December 2017 stood at $27.45 million (2016: $26.59 million). In 2017, the Board noted inadequate

management of the portfolio at risk, which increased from 6.7 per cent, reported in 2016, to 7.21 per cent in 2017, against the regional benchmark of portfolio at risk of 5.85 per cent. The Board considers that Microfinance Department management needs to put in place strategies that include enforcement of compliance with the loan operations manual and other relevant policies to reach the regional benchmark of 5.85 per cent of portfolio at risk.

186. **The Board recommends that the UNRWA Microfinance Department review its strategies for managing loans and enforce staff follow-up on the loan and compliance with manuals to ensure that the portfolio at risk is at or below the regional benchmark of 5.85 per cent.**

C. Disclosures by management

187. UNRWA made the following disclosures relating to write-offs, ex gratia payments and cases of fraud and presumptive fraud, which in the view of the Board are not significant.

1. Write-off of losses of cash, receivables and property

188. UNRWA informed the Board that, in accordance with financial regulation 11.5, the following losses and write-offs amounting to $3.17 million had been recognized during the year: cash losses of $44; inventory losses of $464,177, identified through inventory valuation; outstanding loans receivables of $960,663; property losses of $290,502 and accounts receivable losses of $757,129 (see annex II).

2. Ex gratia payments

189. During the year under review no ex gratia payments were reported by the Agency.

3. Cases of fraud and presumptive fraud

190. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity, including those resulting from fraud. Our audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

191. During the audit, the Board made enquiries of management regarding its responsibility for oversight in the assessment of risks of material fraud and the processes in place for identifying and responding to risks of fraud, including any specific risks that management has identified or which have been brought to its attention. The Board also enquired as to whether management had knowledge of any actual, suspected or alleged fraud, including enquiries to the Department of Internal Oversight Services. The additional terms of reference governing the external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in the Board's report.

192. During the year under review, the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud that have been reported by UNRWA and disclosed in this report. In accordance with article VII of the Financial Regulations and Rules of the United Nations and the related annex, UNRWA reported 69 cases of fraud and presumptive fraud to the Board during the period under review. Of the 69 cases, 31 (45 per cent) investigations were completed and finalized during the year with quantified losses of $13,264. The remaining 38 (55 per cent) cases were

still under investigation, and UNRWA will report the outcomes on these cases next year. Of the pending 38 cases, one relates to 2015 while four and 33 relate to 2016 and 2017 respectively. The Board is concerned at the slow pace of investigation as the remaining cases are more than 50 per cent of the reported cases. Therefore, UNRWA is urged to exert more effort to increase the rate of investigation of the pending cases. A summary of the cases is contained in annex III to the present report.

D. Acknowledgement

193. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Commissioner-General and the members of his staff, as well as the staff at the Amman headquarters, the Gaza headquarters, the Jordan field office, the Gaza field office, the Lebanon field office and the field office in the Syrian Arab Republic.

(*Signed*) Rajiv **Mehrishi**
Comptroller and Auditor-General of India
Chair of the Board of Auditors

(*Signed*) Mussa Juma **Assad**
Controller and Auditor-General of the United Republic of Tanzania
(Lead Auditor)

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors

24 July 2018

Annex I

Status of implementation of recommendations up to the year ended 31 December 2016

						Status after verification			
No.	*Year of audit report*	*Paragraph reference*	*Board's recommendations*	*UNRWA response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
1	2012	82	The Board recommended that UNRWA endeavour to the best of its ability to obtain relevant documents to substantiate the right to use buildings and plots of land.	UNRWA launched an Agency-wide effort to obtain relevant documents and has done the following: • Obtained list of plots of land and type of land (owned, leased, right to use, other) and list of leased buildings • Obtained supporting documents for each piece of land and leased building (land deed, lease agreement, right to use agreement, donation agreement and other supporting documents) • All field offices concerned have provided documentation and UNRWA considers that it has exhausted its means of obtaining further documentation. The analysis of the available documentation for Jordan, Gaza and the West Bank is complete. Specifically with regard to Gaza, UNRWA notes that most of the lands are waqf lands and for Lebanon UNRWA does not consider it advisable to pursue further efforts with the local authorities and other stakeholders to obtain additional	Given the efforts exerted by management and the sensitivity of the matter, the Board closed the recommendation.	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification: Implemented	Under implementation	Not implemented	Overtaken by events
				information, owing to political and operational considerations. • In the Syrian Arab Republic, most UNRWA installations were constructed on camp lands appropriated by the Government of the Syrian Arab Republic. Owing to the ongoing conflict, the field legal office is not in a position to approach the Government of the Syrian Arab Republic on this matter. While UNRWA continues the effort to its best ability, in accordance with the Board's recommendation, to substantiate the right to use buildings and plots of land, the following need to be taken into consideration: its limited resources and the inherent sensitivities in dealing with various authorities and the ongoing conflict in the Syrian Arab Republic. In the light of the efforts expended to date, UNRWA requests that this recommendation be closed by the Board.					
2	2013	40	The Board recommended that UNRWA undertake a mapping exercise to identify and document in a single document key internal controls for its critical business processes with	UNRWA accepts the recommendation and will develop a document explaining the roles and responsibilities for internal control relating to critical business processes.	Development of the document is still in progress.		X		

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			reference to other documents providing detailed procedures.						
3	2013	75	(a) improve coordination between the Procurement and Logistics Division and users at the field offices to ensure that all procurement requirements are identified and communicated to the Procurement and Logistics Division at headquarters on a timely basis, to avoid the unnecessary shortening of the tender periods; (b) perform regular reviews of lead time and inventory balances to avoid emergency orders; and (c) review the grounds for waivers to ensure that they are consistent with current good practice.	The Health Commodities Procurement Plan for 2018/2019 was issued on 30 September 2017. This guides product, budget and supply planning at field offices, headquarters and with the supplier market to ensure availability of health commodities and clarify roles and responsibilities across the supply chain. Grounds for waivers have been reviewed. A circular was also circulated to all User Departments and Field Directors on 13 September 2017, followed by review of the procurement manual.	The Board noted improvement in the communication between field offices and headquarters, as most of the requirements are communicated on time. Also, the number of waivers at the Gaza field office has been significantly reduced. Therefore, the Board considers that the recommendation has been implemented.	X			
4	2013	93	The Board recommended that UNRWA: (a) establish a mechanism for mobilizing and uploading all vital project documents in the intranet on a regular basis; and (b) review the project process manual and specifically define the project officer responsible for maintaining and archiving all project documents in one location.	(a) Documents that relate to project management are uploaded to the intranet (Department of Planning page). Documents that are specific to grant agreements are uploaded to an External Relations and Communications Department database accessible to the staff concerned; and (b) the project procedures manual has been updated to reflect, among other things, the environment subsequent to the introduction of the enterprise resource planning system. The responsibility of project officers has been defined in the updated	The project process manual has been reviewed and all vital project documents have been uploaded. Therefore the Board considers that the recommendation has been implemented.	X			

						Status after verification			
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				project process manual and communicated to all field offices and Headquarters for immediate implementation.					
5	2013	108	The Board recommended that UNRWA: (a) establish steering committees for construction projects as currently required in the project process manual, while waiting for the revised manual; and (b) review the project process manual and provide clear guidance on the establishment of project steering committees, including with regard to the composition of the committees and on the roles and responsibilities of their members, and guidance on the kinds of projects that require a steering committee.	The processes and tools for the manual, such as a steering committee, are included in the updated manual and the interoffice memorandum of 18 April 2018, which were communicated to field offices and headquarters departments.	The project process manual has been updated and steering committees have been established for projects that meet the criteria. Therefore, the Board considers the recommendation as implemented.	X			
6	2014 (A/70/5/Add.4, chap. II) 23		The Board recommended that UNRWA: (a) liaise with United Nations Headquarters to obtain confirmation on the approach to be followed to settle its end-of-service liabilities; and (b) avoid decisions that increase these liabilities while its funding is still uncertain.	This is the only recommendation with which UNRWA disagrees, since it is considered to be impractical given the Agency's mandated responsibilities. The matter of the unfunded severance liability (amounting to $525 million as at 31 December 2014) is inherently tied to the nature of the Agency and its temporary mandate. It is fully expected that, when there is a sustainable political solution resolving the displacement of Palestine refugees, that solution will address, among other	The Board has taken note of the explanations provided by management and considers that the recommendation is no longer worth implementing and therefore classifies it as overtaken by events.				X

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				matters, the future of UNRWA activities, together with the dissolution of its assets and liabilities. In addition, the Agency has already initiated a series of austerity measures, including voluntary early retirement schemes and reductions in class size, as part of the effort to reduce staff costs, all of which contribute to not increasing the end-of-service liabilities while funding is still uncertain.					
7	2014	31	The Board recommended that UNRWA: (a) review its follow-up strategy to improve and strengthen its efforts to collect the long outstanding VAT arrears; and (b) review the collectability of the receivables and impair the value for amounts considered as uncollectable.	The Agency continues to raise the issue, notably through the annual report submitted to the General Assembly by the Commissioner-General, which is considered by the Special Political and Decolonization Committee. UNRWA has confirmation from the Palestine Authority to pay $9 million by the end of May 2018. Also there is good move with regard to the Government of Israel and it is hoped that it will also confirm to pay the outstanding receivables as well. Given the above progress, the Agency requests the Board to close the recommendation.	The Board reviewed the progress of the recovery of VAT receivables and noted good progress, whereby the Government of the State of Palestine has approved a payment of $9 million in respect of the outstanding VAT receivables. With regard to the Government of Israel, there is good progress towards settling the outstanding VAT receivabies. On the basis of current progress, the Board considers the recommendation as being implemented.	X			
8	2014	35	The Board recommended that UNRWA develop a mechanism for tracking and quantifying the net savings from austerity	UNRWA has included the austerity measures in various instructions for implementation. They are	Considered overtaken by events, as all the austerity measures issued in 2015				X

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			measures at all levels of operation and evaluate their effectiveness.	now part of the Agency's instructions, with which every staff member has to comply.	have now been incorporated in the Agency's instructions.				
9	2014	56	The Board recommended that UNRWA: (a) ensure that all service contracts are signed before service delivery to make them legally binding; and (b) conduct performance evaluations of previous services rendered before extending service contracts.	At the Lebanon field office, service contracts are now signed before service delivery and the performance evaluation to the suppliers is carried out prior to extension of the contract. We have submitted all evidence to the Board and therefore we consider this recommendation to be implemented.	From its review of the evidence submitted, the Board considers the recommendation implemented.	X			
10	2014	70	The Board recommended that UNRWA: (a) ensure that field offices expedite the recruitment process for the vacant posts within the new structure and coordinate with the Department of Education at UNRWA headquarters on matters requiring headquarters decisions; and (b) expedite the finalization of the draft governance framework to support the implementation of the education reform strategy.	The field offices have moved forward on the recruitment of the staff for the new strategic support units, as detailed in the teacher policy. The class formation instructions for 2016/2017 reflected the full structure for each field. The recruitment for the strategic support units is complete in four of the five fields, the West Bank field office having allocated resources and being in the process of finalizing the selection process. The Lebanon field office established the strategic support unit posts several years ago but has not been able to recruit education specialists to replace those who became strategic support unit coordinators owing to	The Board reviewed the current status of recruitment for the posts concerned and noted that 90 per cent of the posts have been filled. The Organization directive No. 21 has been developed and serves as governance framework. Therefore the Board considers the recommendation as implemented.	X			

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				financial challenges. The governance frame work now is guided by organizational directive No. 21, which has been established by the Department of Planning.					
11	2014	71	The Board recommended that UNRWA: establish acceptable strategies to avoid Agency-wide effects resulting from the actions of the area staff union on the implementation of the teacher coordinators pilot project at other field offices.	Following field difficulties for the pilot project in the West Bank, it was transferred to Lebanon in 2014. Owing to the financial difficulties of the organization, the pilot project has been cancelled.	The project has been cancelled owing to financial constraints and therefore the recommendation has been overtaken by events.				X
12	2014	81	The Board recommended that UNRWA identify appropriate means and areas for waste disposal and consider the inclusion of waste management in the annual budget as a priority in order to facilitate the establishment of disposal facilities at the health centres.	A waste management plan has been developed and approved by the front office. The Department of Health will coordinate internally to secure the required funds in order to implement the approved waste management plan. While waiting for the implementation, the medical solid waste generated from the Health Centres is collected in the same manner as for the other solid waste from the clinics, i.e., the routine refuse collection mechanism. Sharp needles and syringes are disposed of in safety boxes but then collected as for any other waste, in accordance with country practice. All health centres in Lebanon usually collect waste and dump it at the sites specified by the municipalities.	The Board has noted the considerable progress made and considers the recommendation to be implemented.	X			

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13	2014	87	The Board reiterated its previous audit recommendation that UNRWA expedite the planned initiatives to reduce the length of the recruitment process by improving coordination within the hiring departments.	Human Resources has exerted and will continue to exert and expedite efforts to decrease the duration of recruitment, with weekly recruitment status updates on ongoing recruitments and follow-ups with the departments concerned. International vacancies are normally advertised for a period of one month. In rare instances, Human Resources may be requested to shorten the advertising period to three weeks, owing to urgency in filling a post, given the unforeseen imminent departure of a staff member or other resource gap arising. Human Resources considers the request and, where appropriate, shortens the advertising period to three weeks.	The Board has noted the initiatives and the progress made in shortening the recruitment process and therefore closes the recommendation.	X			
14	2015	44	The Board recommended that UNRWA expedite the implementation of the electronic tendering software in all field offices and headquarters to ensure that feedback is issued and communicated to unsuccessful suppliers, in order to enhance transparency in the procurement process.	UNRWA has recently implemented electronic tendering software (In-tend). Part of the process flow includes automated feedback to both successful and unsuccessful bidders. All the contracts the Agency provides feedback to both successful and unsuccessful suppliers.	The Board confirmed that the Agency now provides feedback to both successful and unsuccessful suppliers and therefore recommendation is considered implemented.	X			
15	2015	50	(a) strengthen coordination between procurement and user departments to ensure that all procurement requirements are	Coordination between procurement and user departments has been improved, necessitating a	The Board reviewed the actions taken by the management and considers	X			

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			identified in a timely manner and communicated to the Procurement and Logistics Division to avoid unnecessary shortening of the tender period; and (b) ensure that the Gaza field office performs an evaluation of suppliers' performance prior to the extension of long-term agreements and use the evaluation report as criteria for such extensions.	reduction in waivers for shortening of the tender period. All the tentative dates for the submission of purchase requisitions from field offices are indicated in the procurement plan for centrally procured items. Performance evaluation of suppliers is now carried out prior to the extension of long-term agreements.	the recommendation implemented.				
16	2015	53	UNRWA agreed with the Board's recommendation that it (a) strengthen the Contract Management Unit to improve the level of follow-up with the vendors to minimize delays in the delivery of goods and services; (b) ensure that specific liquidated damages clauses are included in the contract and/or purchase orders; and (c) consider establishing a new coordination mechanism for UNRWA goods with the Israeli side through the Coordination of Government Activities in the Territories department.	The Contract Management Unit was not approved by the management unit, however the follow-up exercise is still heading in collaboration with the user department and has been improved for 2017, as reminders to vendors are submitted regularly. Liquidated damages are included in section 15.2 of the general conditions of contract for the provision of goods, which are annexed to each contract. Establishing a new coordination mechanism for UNRWA goods with the Israeli side through the Coordination of Government Activities in the Territories department is still a challenge but we are carrying out follow-up on a case-by-case basis.	From the 2017 audit, the Board noted improvement in the contract management for the Gaza field office and the liquidated damages clause is disclosed in each contract. Therefore the recommendation has been implemented.	X			
17	2015	63	UNRWA agreed with the Board's recommendation that it (a) conduct performance evaluation and keep records	On 13 December 2016, the Director of Human Resources issued a complementary personnel	The Board reviewed compliance with the current complementary personnel directive (CPD/1) and noted	X			

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			for the engaged consultants and contractors; (b) expedite the process of policy review to formalize the performance evaluation of individual consultants and contractors; and (c) ensure that all hiring departments include measurable outputs and performance indicators in their terms of reference for the monitoring and evaluation of results.	directive (CPD/1) on the contracting of individual service providers. The new directive entered into force on 1 January 2017 and applies to all new contracts or extensions of contracts with a start date on or after 1 January 2017. The directive addresses on (a) performance evaluation of individual service providers is mandatory, using a standard form provided in the annex to the directive. Contracting managers/departments must also maintain centrally within a field or department copies of all contracts executed and essential information related to the engagement of individual service providers (b) the directive includes provisions on pre-contracting requirements, including the development of terms of reference, specifying inter alia the objectives of the contract, tangible and measurable outputs of the work and realistic deadlines.	substantial improvement. Therefore the recommendation is considered implemented.				
18	2015	68	UNRWA agreed with the Board's recommendation that it (a) establish a separate store for medical supplies in the new building, to avoid mixing them with general supplies; and (b) install temperature regulators in the general store	Currently the Agency has hired a supplier for keeping medical supplies which require a minimum storage temperature of 8°C and maximum of 25°C. UNRWA has begun construction of a warehouse, which will solve	Since the Agency has hired a supplier for keeping the medicine at a recommended temperature for medical supplies and its own warehouse is under construction (57 per cent complete), the Board	X			

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			to facilitate proper drugs storage management.	the problem. The percentage of completion is 57 per cent and it is expected to be completed in late December 2018.	considers the recommendation to be implemented.				
19	2015	80	UNRWA agreed with the Board's recommendation that it develop an information and communications technology strategy together with an enterprise architecture and road map to support the Agency's business objectives.	The final information and communications technology strategy has been signed and is in operation.	The Board reviewed the approved information and communications technology strategy and therefore considers the recommendation implemented.	X			
20	2015	85	The Board recommended that UNRWA expedite the process of developing and implementing an information technology applications portfolio management framework for the proper management of the Agency's software applications.	UNRWA accepts the recommendation and has already advised the Board that the implementation plan is connected to the creation of an updated overall information technology governance model and application portfolio management framework. UNRWA, through the Information Management Department, has updated organizational directive No. 26, issued technical instructions for application development and the terms of reference for the ICT Project Portfolio Committee.	The Board has noted the updated organizational directive No. 26 on the instructions for applications development and therefore considers that the recommendation has been implemented.	X			
21	2015	93	The Board recommended that UNRWA conduct a post-implementation review of the enterprise resource planning project to identify key lessons learned for improvement in future projects.	In 2017, the Information Management Department collected input from users and stakeholders groups to identify the major items and sentiment related to the usage of REACH. The survey report was issued in March 2018 and	The Agency has assessed the usage of the REACH system by collecting input from users and other stakeholders and the report has been produced and shared with all stakeholders. On the basis of the assessment carried out, the Board considers that the	X			

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				communicated to stakeholders.	recommendation has been implemented.				
22	2015	102	The Board recommended that UNRWA (a) expedite the implementation of the e-health application to all health centres to enable real-time recording of stock consumptions at the level of health centres; and (b) implement the interface between the e-health application and the enterprise resource planning system to improve the quality of the financial reporting process for inventory.	The roll-out plan for e-health as prepared by the Department of Health has been submitted to the Board as evidence to indicate plans to expedite roll-out of e-health to all health centres. To date, 125 health centres have already implemented the new e-health system. Stock consumption is already embedded within the system and the health centre can currently generate an online stock balance for all medicines. For part (b) the implementation is currently delayed, owing to other priorities.	Considering the roll-out to date and the plan to roll out e-health to the remaining health centres, the Board considers that the recommendation has been implemented.	X			
23	2015	114	UNRWA agreed with the Board's recommendation that it (a) develop a comprehensive information security programme; (b) update its information security policy; and (c) develop an information security steering committee and assign accountability to ensure that information security strategies are aligned with and support business objectives.	This recommendation has been implemented based on the set up of the Information Technology Board. The steering committee overseeing information security strategies has been established. UNRWA has reviewed all information security aspects and updated the relevant programmes and information technology policy.	The Agency has set up an information technology board, established a steering committee to oversee the information security strategies and updated programmes and information security policy. With these comprehensive steps undertaken by the Agency, the Board considers that the recommendation has been implemented.	X			
24	2015	119	The Board recommended that UNRWA continue to improve the internal control deficiencies noted by expediting the implementation of Department of Internal Oversight Services	Comprehensive review of the status of implementation has been carried out by the Department of Internal Oversight Services, a number of whose recommendations have been implemented and	The Board reviewed the status of implementation of the high-risk recommendations and noted that most of the previous	X			

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			recommendations, especially the high-risk recommendations.	some cleared by being merged together.	high-risk recommendations have been implemented.				
25	2015	125	The Board recommended that the Microfinance Department (a) ensure that verification officers monitor the application controls related to cashier functions and address issues of non-compliance to Department management on a regular basis; (b) reallocate the function of cancelling cash-received vouchers to a person other than the cashier, so as to ensure proper segregation of duties; (c) make sure that full justification for the cancellation reasons are preapproved by the branch manager and documented for future reference; and (d) ensure that full and detailed information and analysis are obtained and made for both client and guarantor.	Microfinance Department management issued instructions to cashiers to adhere strictly to cashiering functions and procedures. All forms were adjusted as required, cheque registers were updated, stamps were cancelled as required, the Finance Department increased supervisory levels in respect of cashiers and verification missions increased their focus on cashier functions. Microfinance Department management conducted training sessions for cashiers at all Microfinance Department fields of operation to improve skills and increase competence.	The Board noted improvement in the cashiering functions and therefore considers the recommendation implemented.	X			
26	2015	126	The Board reiterated its previous recommendation that the Microfinance Department: (a) review and strengthen the loan granting process to ensure that operating manuals and established policies and procedures are followed in filling the loan applications, in order to improve accuracy and consistency; (b) monitor the controls related to cashier functions and address non-compliance issues on a regular basis; (c) ensure	Microfinance Department branches completed the following corrective actions: (a) instructions and notifications were issued to the staff members concerned to avoid such mistakes; (b) required supporting documents obtained from clients; (c) corrective actions taken as required in respect of loan applications; (d) complete all required levels of approvals with the required amendments;	The Board is satisfied with the measures instituted and closes the recommendation.	X			

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			proper maintenance of customers' files where all customers' guarantees and related documents are kept and updated; (d) improve project follow-up procedures (supervision and monitoring) to reduce risks of incorrect acceptance of credit decisions and decrease the risk of client default; and (e) ensure adherence to credit terms and conditions before the disbursement of loans.	(e) development of Microfinance Department operational manuals completed by all Microfinance Department fields of operation; (f) training sessions conducted for loan officers and area loan supervisors on preparing loan applications.					
27	2015	128	The Microfinance Department agreed with the Board's recommendation that the existing UNRWA user access forms be used to capture access requests in order to facilitate a clear understanding of user access requirements and document formal supervisor/manager approvals of requests for the audit trail and future reference.	The Microfinance Department completed the following corrective actions: (a) a user access form is used to capture all access requests; (b) the forms are archived and stored; (c) all forms are approved by the supervisor/manager and routed through the Microfinance Department Administrative Officer in each field; (d) the access authority matrix was updated for role/group access screens and functions on the OMNI application.	The Board obtained and tested copies of the supporting documents relating to the user access forms and noted that they had been approved by the supervisor. Therefore the recommendation has been implemented.	X			
28	2016	19	(a) Develop an insurance framework to govern insurance practice by defining roles and responsibilities, drawing clear decision lines regarding what and how much to be insured, management of insurance portfolio in terms of risk exposures and developing valuation methodologies for	The Director of Administrative Support is currently finalizing the terms of reference for a consultant to perform a risk assessment and evaluate the risk exposure, which will form the basis for the framework.	Pending finalization of the process to hire the consultant for risk assessment and evaluation of the risk exposure, the Board considers that the recommendation is still under implementation.		X		

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			insurance purposes; and (b) assess the risk exposure of the Agency's assets and use its assessment as a basis for deciding on the nature of the assets to be insured and the value to be covered by the insurance.						
29	2016	23	UNRWA-West Bank field office agreed with the Board's recommendation (a) certify the monthly statements submitted by the group medical insurance contractor to authenticate the quality of service delivered and the accuracy of monthly actual expenditure, and (b) reconcile monthly statement submitted by the contractor against the submission made by the staff to validate the accuracy of the information submitted by the contractor.	The process is under way, including discussion with the Human Resources Department on how to conduct the reconciliation to comply with the provisions of the contract.	Considering the current stage of the process to ensure reconciliation of monthly statements is made, the Board views the recommendation as being under implementation.		X		
30	2016	27	The Board recommended that UNRWA (a) develop preventive control measures in the REACH system to ensure that all assets below capitalization threshold of $2,000 are tracked outside the fixed asset register; and (b) review the Property Management Manual to align it with IPSAS Financial Reporting policy on the recognition of camp infrastructure which are controlled by UNRWA.	A monthly asset capitalization checklist is in place and the Information Management Services Department is currently reviewing the configuration of the capitalization threshold of $2,000 in the REACH system. With respect to capitalized camp infrastructures, UNRWA has reviewed and updated the Property Management Manual to include camps which are controlled by the Agency.	The Board has noted steps taken by the Agency to ensure tracking of assets below the capitalization threshold and therefore considers the recommendation to be implemented.	X			

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31	2016	31	(a) Expedite allocation of a physical identification number for each asset in the fixed asset register maintained in the REACH system for easy traceability and monitoring of the assets; (b) develop a unique physical identifier to link the REACH system with other systems used to record fixed assets; and (c) expedite reconciliation of the number of vehicles in the REACH system and the fleet management system records.	The allocation of a physical identification number for each asset in the fixed asset register maintained in the REACH system is still in progress, while the reconciliation of the number of vehicles in the REACH system and the fleet management system records has been done.	The Board reviewed the reconciliation of the number of vehicles in the two systems and considers part (c) as implemented. However, parts (a) and (b) are still in progress.		X		
32	2016	36	The Board recommended that UNRWA Lebanon field office: (a) ensure that sections and departments provide timely notifications to the Property Management Unit on the new acquisitions, surveyed and transferred assets to allow manual recording and numbering of assets as a short-term solution pending the reactivation of the barcode system; (b) improve communication and build awareness among custodians on raising survey requests and adherence to transfer procedures to ensure timely dissemination of information to the Property Management Unit for updating the assets records; and (c) expedite the reactivation process of the barcode system in the REACH system for easy tracking and monitoring of acquired assets and surveyed	UNRWA-Lebanon field office has developed a standard operating procedure for the acquisition, transfer and survey of assets in order to address parts (a) and (b) of this recommendation. The standard operating procedure is communicated to installation managers and heads of programme. The implementation of part (c) is still in progress.	Parts (a) and (b) are considered implemented, while part (c) is still in progress.		X		

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			and transferred assets from one location to another.						
33	2016	40	The Board recommended that UNRWA: (a) review the financial technical instruction to bring it into line with the new maintenance policy for guiding the field offices on maintenance level classification and accounting treatment; and (b) ensure that all costs relating to comprehensive maintenance activities which improve the performance or extend the useful life of an asset are classified under capital account codes during the budgeting process.	UNRWA has updated its finance technical instruction to include level three maintenance as capital, based on maintenance policy. All costs relating to comprehensive maintenance activities which improve the performance or extend the useful life of an asset are thereby classified under capital account codes.	In the light of the updates made to the finance technical instruction and the review of costs incurred on assets to ascertain classification of expenditure, the Board considers the recommendation as being implemented.	X			
34	2016	44	The Board recommended that UNRWA review and identify the key performance indicators which are not in line with SMART criteria and revise them accordingly.	UNRWA has reviewed the key performance indicators and aligned them with SMART criteria, as indicated in the annual operational plan for 2018.	The Board has confirmed that the key performance indicators have been reviewed and therefore the recommendation is considered implemented.	X			
35	2016	49	The Board recommended that UNRWA: (a) update the provisional baseline in the results-based management system immediately upon release of the annual results review report to reflect the true baseline; and (b) minimize the time taken to release the annual results review report so that the challenges identified and the issued recommendations for improvement are considered in the preparation and implementation of the	UNRWA now updates the provisional baseline in the results-based management system upon release of the annual results review report, to reflect the actual baseline. The report on the annual results review was issued on 22 March 2017, which was within the reporting cycle of 10 weeks. UNRWA remains committed to releasing the report in a timely manner and will make further	The provisional results are now updated in the results-based management system after the annual results review report is issued, and the report is released on time.	X			

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			operational plan of the current year.	improvements in future years.					
36	2016	52	(a) Review its hedging policy to indicate the method applicable for assessing hedge effectiveness; and (b) ensure that hedge effectiveness is assessed to identify the forward contracts which qualify for hedge accounting during the preparation of financial statements.	Hedge accounting is optional and can be applied to hedging relationships only when the Agency chooses to adopt it (see IPSAS 29, para. 98). Hedge effectiveness needs to be tested when hedge accounting is chosen and conditions are met under paragraph 98 of IPSAS 29. As UNRWA has not opted to report using hedge accounting, by default it is not required to perform hedge effectiveness testing.	In the light of management explanations, actual circumstances on the ground and evidences produced, the Board withdraws its recommendation. Therefore, the recommendation is considered as overtaken by events.				X
37	2016	57	The Board recommended that UNRWA update the financial technical instruction to formalize the performance of payroll reconciliation and define the relevant payroll report to be used for payroll reconciliation, timing of reconciliation and time frame for clearance of un-reconciled transactions for accuracy and completeness of the payroll process.	The financial technical instruction to formalize the performance of payroll reconciliation has been updated and the instruction has been shared with the users.	The Board reviewed the instruction and considers the recommendation implemented.	X			
38	2016	58	The Board recommended that UNRWA (a) increase the scope of payroll reconciliation by considering the gross payable amount posted by the Human Resources Department, which includes all deductions, rather than following the current practice of reconciling only the net	Payroll reconciliation has been extended to other statutory deductions, such as Provident Fund deductions and medical insurance deductions. All long-outstanding transactions from 2015 have been cleared.	The Board reviewed the extended scope of payroll reconciliation and clearance of long-outstanding items and therefore considers the recommendation implemented.	X			

No	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification: Implemented	Status after verification: Under implementation	Status after verification: Not implemented	Status after verification: Overtaken by events
			payable amount; and (b) expedite the clearance of long outstanding transactions to avoid possible misstatement in the financial statements.						
39	2016	61	(a) Review the configuration of the REACH system in order to identify all errors and system faults relating to staff earnings and deductions generated; (b) improve the review process for payroll posting to minimize human error and consider retraining human rights staff on the basis of lessons learned and by taking into account the frequency of payroll processing errors; and (c) ensure that employee statutory salary deductions for the pension fund are made and submitted to the Pension Fund each month.	UNRWA has instituted measures to implement this recommendation, including: (a) regular training workshops for the Information Management Department and the Department of Finance, and regular capacity-building sessions for the International Personnel Service Section are taking place to reduce human error in entitlement calculation; (b) the International Personnel Service Section has selected an additional staff member to reinforce its team, and the optimization of the REACH system's configuration is an ongoing process and is done by the Information Management Department in close coordination with the International Personnel Service Section. The review processes were improved and human errors have significantly decreased. All policy changes are now communicated to the Information Management Department in a timely manner.	This is considered implemented, as the Board noted improvements in the payroll processing. The employee statutory salary deductions for the pension fund are now made and submitted to the Pension Fund each month.	X			

						Status after verification			
No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by events
40	2016	66	The Board recommended that UNRWA: (a) consider inclusion of staff assessment cost for international staff wages, salaries and employee benefits reported in the financial statements; and (b) recognize the staff assessment cost retained at United Nations Headquarters and consider it as part of the contribution from Headquarters.	Staff assessment cost is normally deducted by United Nations Headquarters and retained in the Tax Equalization Fund and therefore the issue of staff assessment cost is handled by Headquarters.	The reporting of staff assessment cost as part of payroll cost will need coordination among all United Nations agencies for consistency. Since it has been reported in only one entity it is classified as overtaken by events.				X
41	2016	70	The Board recommended that UNRWA: (a) streamline the administrative procedures followed before signing the contracts to shorten the process and ensure that all contracts are signed before delivery of services; and (b) perform evaluation of previous services received before extending service contract.	Administrative procedures had been implemented to ensure presentation of the hospitalization contracts for approval and signature by the awarding authority before continuation of services in January 2017. Evaluations of the hospitals' performance were conducted in 2017 prior to the sending of any letter of interest to the hospitals.	The Board noted improvements during this year and therefore considers that the recommendation has been implemented.	X			
42	2016	75	(a) Review its procurement manual to include limits for contract renewals in order to enhance fair competition and obtain best value for money; and (b) improve the data collection process to include end users' satisfaction as part of vendors' performance evaluation and ensure that renewal of contract takes into account the results of the Agency's market assessment.	UNRWA wishes to clarify that, in accordance with its procurement manual, it is allowed to renew its contracts subject to the provisions of the original contract or where annual renewal is a standard commercial practice. The sponsoring officer must evaluate the rationale for such renewals on a case-by-case basis depending on whether the action will be in the best interest of UNRWA.	Given the explanation that the manual has not been updated with a view to limiting the number of times the contract could be renewed without competitive sourcing of vendors and that no performance evaluation has been undertaken, the Board considers that the recommendation has not been implemented.			X	

						Status after verification			
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				Concerning part (b) of the recommendation, while it is good practice to request vendor performance evaluations from end users and to support renewal of contracts with market assessment, the implementation of this part of the recommendation may not be possible currently, owing to the Agency's resource constraints.					
43	2016	82	(a) The Health Department and the Procurement and Logistics Division at headquarters in Amman establish timelines for raising purchase requisition on medical items on the basis of the procurement plan in order to avoid stock-out and emergency procurement, which could lead to higher costs; and (b) consider entering into long-term agreements with local suppliers that offer competitive prices and meet the required specifications, to be used for emergency needs of medical supplies.	Gaza field office is awaiting guidance from the Procurement and Logistics Division at headquarters in Amman on the establishment of long-term agreements with local suppliers. UNRWA has established timelines for raising purchase requisitions on medical items on the basis of the procurement plan in order to avoid stock-out and emergency procurement, which could lead to higher costs.	Part (a) has been implemented, as the issued procurement plan indicates the dates for issuing the purchase requisition, but part (b) is still under implementation.		X		
44	2016	87	The Board recommended that UNRWA: (a) comply with the procurement manual by awarding contracts to the lowest technically compliant evaluated bidders; (b) ensure that contract management plans are developed for strategic and important	(a) The recommendation is contested because it concerns a one-off exceptional case and no further instance was noted during 2017. The Procurement and Logistics Division is to provide the log of the Agency's 2017 Advisory Committee on	During the interim audit, the Board noted a similar case whereby the second-lowest evaluated bidder was awarded the tender; therefore, the issue has not been addressed.		X		

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			contracts and used as a tool for monitoring the implementation of contracts and reporting the key performance indicator measures as required by the procurement technical instruction; and (c) perform a comprehensive evaluation review and ensure that the evaluation criteria are detailed enough to include vendors' past performance, equipment, qualified staff and financial stability, in order to confirm its ability to deliver the intended service before award.	Procurement log as evidence in a number of such instances, where an award was made to the second-lowest bidder (b) With regard to parts (b) and (c) of the recommendation, these are covered in article 8 of the procurement manual.					
45	2016	92	(a) Remind and advise user departments, through the Contract Management Unit, to start the renewal process or retendering within six months before the contract expiration in order to allow enough time for the procurement process; and (b) streamline the review process for contracts to ensure timely completion of procurement processes before expiration of existing contracts.	With regard to part (a) of the recommendation, centralized repositories of all long-term agreements and service contracts are available on the Agency's shared drive. Resources are assigned to track expiry dates with user departments for action in a timely manner. Concerning part (b) of the recommendation, article 9 of the UNRWA procurement manual provides guidance on procurement review in order to ensure compliance with the Agency's regulatory framework.	From its review of the management responses regarding the actions taken, the Board considers the recommendation implemented.	X			
46	2016	97	(a) Solicit other sources of funds to complete the remaining work for the project; (b) conduct training for the engineering team on the contract management	The project was closed and the final settlements were made to the contractor. Owing to the financial situation at the Agency and related austerity measures	The Board reviewed the information submitted and agreed to close parts (a), (c) and (d), while closure of part (b) is subject to training for the engineering team on the		X		

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			process to ensure that it takes proactive decisions based on the terms and conditions of contract in order to avoid failures in completing projects; (c) involve legal officers when their intervention is required in events, such as slow progress, which indicate that the work cannot reasonably be completed on the fixed date and that negotiation with donors is needed in order to prolong the funding period; (d) hold regular meetings to discuss the status of project implementation and the expiry date of the donor funding involving engineers, the External Relations and Communications Department and project officers and maintain regular communication with the executive office in view of a final decision.	since January 2018, the training could not be arranged. However, at various workshops and internal meetings and through improved processes, the compliance with terms and conditions are adhered. Also, to address the audit recommendation the terms of reference were revised and field legal officers are now invited to various meetings. While these meetings are on the calendar, the Chief Field Infrastructure and Camp Improvement Programme and the deputy directors hold them only when there are projects experiencing challenges that require input from other stakeholders, including field legal officers, the Procurement and Logistics Division, and the projects office. The West Bank field office conducts weekly meetings with the External Relations and Communications Department to discuss the status of the projects and donor arrangements.	contract management process.				
47	2016	103	UNRWA agreed with the Board's recommendation that it ensure close monitoring of the contracts and in case the work was below standard and there was delay in implementation, apply remedies in accordance with	UNRWA is in the process of drafting a policy to ensure close monitoring of contracts.	The Board noted the progress towards drafting the policy and therefore considers the implementation of the recommendation to be in progress.		X		

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			the contract conditions and, if feasible, terminate the contract as matter of urgency to avoid further delay in the completion of the project and cost escalation, considering the associated risk and benefits.						
48	2016	106	UNRWA agreed with the Board's recommendation that it conduct training for both procurement personnel and user departments in order to raise the level of awareness and improve compliance with the procurement manual (2015) and the new Procurement and Logistics Division technical instruction No. 1 (PLDTI1) of January 2016.	During 2017, more than 130 UNRWA staff participated in professional training from level 2 to level 4 conducted by the United Nations Development Programme. These are targeted training customized for the United Nations for the procurement and supply chain. The training also included updating the staff on the changes introduced in the procurement manual of 2015.	The Board has assessed the level of training that was conducted and therefore considers the recommendation to be fully implemented.	X			
49	2016	108	(a) Ensure that project proposals with a detailed workplan are prepared, in the interests of efficient project implementation and monitoring and to solicit funds; (b) improve preliminary survey and design of construction and maintenance projects and, where feasible, prepare cost estimates on the basis of more detailed information to enable improved accuracy of the cost estimate to be submitted to the donor in order to avoid major changes in the scope of work during project implementation; and (c) ensure that monthly	With regard to parts (a) and (b) of the recommendation, UNRWA will ensure that they are implemented for future projects. Regarding part (c) of the recommendation, UNRWA will ensure that reports are submitted in a timely manner to donors, as stipulated in funding agreements.	Management explanations notwithstanding, the Board has noted recurrence of the same weakness with regard to project management and therefore considers the implementation of the recommendation to be in progress.		X		

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			reports are submitted to the donor to comply with the funding agreement.						
50	2016	114	The Board recommended that the Lebanon field office: (a) plan in advance the appropriate time for lodging a request for approval from the Lebanese army force on entry of building materials into the camps immediately after signing a contract, in order to ensure smooth implementation of the project; and (b) ensure that project risks assessment is conducted and included in the project proposal as required by the UNRWA project process manual (2011).	For all projects, as soon as the tender is awarded and the name of the contractor is known (it is a prerequisite to mention the name of the contractor), UNRWA-Lebanon field office submits a request to the Lebanese Armed Forces for approval of the entry of building materials. Preparation of the list of materials is begun while the tendering process is ongoing, to ensure that submissions are made immediately the name of the contractor is identified, i.e., the contract is signed. The project risks assessment is conducted and included in the project proposal, as required by the project process manual (2011).	The Board reviewed the supporting documents and the recommendation is considered implemented.	X			
51	2016	119	UNRWA agreed with the Board's recommendation that it develop and deploy a web page for the Department of Security and Risk Management on the Agency intranet in order to improve sharing of security governance documents and other key security-related information and to use the page as a platform to carry out an online security awareness campaign.	As part of its three-year strategy, the Department of Security and Risk Management will update the Agency's security governance framework, its policies and guidelines and issue a "best practice" guide to area staff in the field. It is expected that this effort will result in the implementation of policies, guidelines and standard operating procedures that will impact	In the light of the management strategy with regard to the implementation of the recommendation, the Board considers it to be under implementation.		X		

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						Implemented	Under implementation	Not implemented	Overtaken by events
				the daily operations and behaviour of staff.					
52	2016	123	The Board recommended that UNRWA expedite the process of developing business continuity plans for headquarters and field offices to improve continuity of service delivery and enhance the security and safety of the Agency resources during major incidents.	Business continuity planning has been prioritized for headquarters functions in Gaza and Amman. The development of business continuity plans for other fields will follow as part of the development of an Agency-wide emergency management framework.	Since development of the business continuity plans has not been rolled out to field offices, the Board considers the recommendation to be under implementation.		X		
53	2016	129	(a) Expedite the installation of the management information system for better management of loan portfolio and overall programme performance; and (b) closely monitor the implementation of the contract to ensure that the system is developed in line with the contract specification and avoid extension of contract without specifying the end date thereof.	The installation of the management information system has been carried out and the system is operational.	The Board has verified the installed management information system and is therefore satisfied that the recommendation has been implemented	X			
54	2016	130	The Board recommended that UNRWA: (a) consider inclusion of a liquidated damages clause and demand submission of performance security for service contract to enforce performance of the contractor; and (b) ensure that any implementation of the project is supported by an implementation plan which will indicate the completion time for each stage of the contract.	A liquidated damages clause is included in section 15.2 of the general conditions of contract, which are annexed to every contract. Every project now includes an implementation plan, which highlights the completion time for each stage of the project.	In a sample of contracts reviewed, the Board confirmed the existence of an annex for the liquidated damages clause. Also, each project reviewed has an implementation plan. In the light of these efforts carried out, the recommendation is considered implemented.	X			

						Status after verification			
No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by events
55	2016	133	The Lebanon field office agreed with the Board's recommendation that it strengthen controls over the loans approval process and ensure that all loans are approved by the Loan Committee as required under the direct lending Microcredit support programme guidelines (2012).	The Lebanon field office has already implemented this recommendation and all loans are now approved by the Loan Committee in accordance with the established guidelines. UNRWA requests the closure of this recommendation by the Board.	From its review, the Board noted that all the loans are approved by the Loan Committee and the recommendation is therefore considered implemented.	X			
56	2016	139	The Board recommended that UNRWA: (a) identify and review low retention factors within the Agency control and include them in the general staff well-being matters to improve retention of key staff; and (b) customize and simplify the exit questionnaire for easy completion and conduct oral exit interviews to capture a wide range of separation reasons for the purposes of decision-making and document the result in the appropriate file.	The exit questionnaire was reviewed and simplified. Regarding part (a), UNRWA disagrees with the recommendation, as it does not take into account the multitude of factors affecting its staff retention. UNRWA is aware of the main factors, which are not within its control. Secondly, staff well-being is holistically addressed outside of staff turnover concerns.	The Board reviewed the management response and is satisfied with the implementation of part (a). Part (b) is considered to have been overtaken by events owing to the fact that most of the reasons provided by the separating staff in the exit questionnaire are beyond the control of UNRWA.				X
57	2016	142	The Board reiterated its previous recommendation that UNRWA: (a) conduct performance evaluation of individual consultants and contractors in order to comply with the complementary personnel directive (CPD/1); and (b) ensure that all hiring departments develop and include measurable outputs and performance indicators in their terms of reference for individual consultants and	In December 2016, UNRWA issued a complementary personnel directive (CPD/1) on the contracting of individual service providers. The new directive entered into force on 1 January 2017 and applies to all new contracts or extensions of contracts with a start date on or after 1 January 2017. The directive addresses the elements of the recommendation.	The Board has assessed the initiatives taken by the Agency in the issuance of the new complementary personnel directive and reviewed the contracts of individual consultants. It noted that outputs have been clearly spelled out and performance indicators included in the terms of reference, so it considers that the recommendation has been fully implemented.	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA's response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			contractors hired, for the monitoring and evaluation of results.						
58	2016	146	The Board recommended that UNRWA: (a) develop a detailed salary advance policy for international staff, which will define the application of international staff rule 3.16 and indicate the eligibility criteria, limitation in amount, liquidation period and restriction on multiple salary advances; and (b) improve the review process to ensure that monthly deductions and repayment periods recorded in the system align with those which has been approved.	While international staff rule 3.16 governs issuance of salary advances to international staff, as of 15 February 2018, the Agency has indefinitely suspended salary advance payments for all staff, (see General Staff circular No. 03/2018). As the salary advance payments have been suspended indefinitely and there is no indication of these payments being resumed in the foreseeable future, it would be redundant and counterproductive to release a new salary advance policy at the present stage. In addition, the review process for monthly deductions is no longer applicable. For these reasons, and the fact that salary advances payments are not normally expected to be issued in the foreseeable future, UNRWA requests the closure of this audit recommendation.	According to the management response, the Agency is no longer issuing salary advances to international staff; the Board therefore considers the recommendation to have been overtaken by events.				X
59	2016	152	The Board recommended that (a) headquarters in Amman and the Gaza field office assess what constitutes a reasonable number of staff to be in the recruitment section against the workload and consider the use of staff from other sections within the department during	UNRWA regularly assigns recruitment duties during peak recruitment periods. Resourcing of the recruitment section, the processes undertaken and the duration of the largest rosters are being reviewed, and the 2017 recruitment plan now	The Gaza field office has equipped the recruitment section with necessary resources which significantly reduced the delays in the recruitment process, and the recruitment roster is regularly updated. Therefore	X			

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			peak times in order to minimize frequent delays in the recruitment process; (b) the Gaza field office ensure that the recruitment roster is updated regalarly and effectively used to fill relevant posts especially core services, such as teachers, health officers, and relief and social services officers.	under implementation provides for maintaining rosters for core functions.	the recommendation is considered implemented.				
60	2016	153	The Board also recommended that the West Bank field office (a) establish a succession plan on recruitment section so that the absence of one person does not obstruct the recruitment process; and (b) streamline the recruitment process among the hiring departments and human resources and ensure that the detailed interview reports are submitted for appointment within an agreed period of the completed interviews with a view to minimizing delays in the recruitment process.	The human resources office of the West Bank field office has the necessary measures in place to provide office coverage to ensure continuity of tasks and recruitment process in case of any absences. This succession plan is managed within the respective team, with oversight by the supervisor. Regarding part (b), UNRWA has taken initiatives to implement the Agency's recruitment reform which address these points and drives significant improvement in the overall process. The Human Resources Department at headquarters and the human resources office of the West Bank field office has taken steps to streamline the recruitment process among the hiring departments to ensure that detailed interview reports are prepared in accordance with Agency standards and	The Board acknowledges the management initiatives; however from the recruitment tracker submitted, it appears that the recruitment delays still persist. The information submitted does not substantiate the improvement, as the number of days taken to complete the recruitment is still greater than the 90 days stipulated in the policy. From 109 cases submitted to the Board, all have recruitment delays ranging from 112 to 464 days. Therefore the recommendation is considered to be under implementation.		X		

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				recruitment delays are minimized. Regarding evidence to show the improvement in the recruitment timeline in the West Bank field office as a result of the recruitment reform implementation, please note that it is only possible to measure this in the 6 to 12 months after implementation.					
61	2016	158	The Board recommended that UNRWA ensure compliance with international staff personnel directive No. I/104.2/Rev.4 for the purposes of effective panel recommendation by developing both quantitative and qualitative comparative analysis for ranking candidates and use it as the basis for panel recommendations.	The new recruitment reform, implemented recently, incorporates quantitative and qualitative comparative analysis for ranking candidates and is being used as the basis for the panel recommendations. Accordingly, UNRWA requests the closure of this recommendation.	The recommendation has been implemented, since both quantitative and qualitative comparative analysis of candidates is being conducted.	X			
62	2016	162	(a) Strengthen the clearance review process to ensure that deductions are made from all international staff members' payments before they separate and a refund is made immediately after a six-month period has elapsed; and (b) formalize the clearance procedures, deducted amount and withholding period for the amount retained from a separated staff member through personnel directive or policy for reference.	The clearance review process has been reviewed and the following steps have been taken to strengthen the process. The final clearance form has been revised to include all aspects for which the staff member may have utilized UNRWA resources or funds. This includes clearance from the Treasury in the Finance Department which confirms whether or not the staff has settled all pending payments. In addition, it is formalized and	Considering the control measures that have been instituted for clearance with regard to separating staff, which include revision of the clearance form and withholding of $1,000 for a period of six months, the Board is satisfied that the recommendation has been implemented.	X			

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				noted in the separation letter provided to the staff member that an amount of $1,000 will be withheld for a period of six months to settle any unforeseen pending expenses or bills (such as telephone bills) received in the name of the staff member after his or her separation. The REACH monitoring function is used to ensure the timely release of the amount withheld after six months. The amount withheld is released within a time frame of six months. In addition, the Human Resources Department has released International Staff Circular No. 03/2018 to issue the guidelines on exit clearance procedures. It should also be noted that, in accordance with the guidelines, staff members are responsible for complying with the exit clearance and ensuring its mandatory completion at least five days before the separation date					
63	2016	167	The Board recommended that UNRWA: (a) expedite the process of recovering the overpaid amount from separation benefits; (b) improve the review process for the computation of staff separation benefits before payment is made; (c) ensure that the accrued annual leave balance in the	UNRWA took the necessary steps to attempt the recovery of the overpaid amount from the staff for leave encashment and the recovery of the staff member's leave days exceeding the actual leave balance as at 15 February 2016. In this regard, multiple and repeated attempts were made over the	The Board reviewed the initiatives undertaken by management and considers that parts (b), (c), and (d) have been implemented, while part (a) is subject to submission of legal advice from the Legal Department regarding the overpaid amount and a management decision on write-off.		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			e-leave system is supported by confirmation from the hiring department before authorizing the leave encashment in order to avoid overpayment; and (d) adjust the overpaid amount for area staff and international staff in the financial statements to recognize the account receivable and derecognize the expense by the same amount.	course of the year; and the evidence for this has been provided in the form of email correspondence. Since there has been no success, despite repeated attempts, it is suggested that the amount be written off, pending the necessary internal approvals. With regard to parts (b) and (c), UNRWA has improved its computation, whereby both the attendance register and the leave system are used in determining the leave balance for leave encashment payments to separated staff. The Human Resources Department has taken steps to improve its review process of the manual computation of staff entitlements including the following: (i) the outstanding leave balance is manually checked and verified; (ii) the leave balance is then entered into an Excel sheet to automatically compute the entitled payment or deduction (deduction in the case of a negative leave balance) for the staff member; (iii) the information is then sent to the staff member concerned for review and verification. Once the staff member has verified the information, it is sent to his or her supervisor for review and verification; and (iv) after receiving	Therefore, the implementation of the recommendation is in progress.				

						Status after verification			
No.	*Year of audit report*	*Paragraph reference*	*Board's recommendations*	*UNRWA response*	*Board's assessment*	*Implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*
				verification from both the staff member and the supervisor, the computed staff entitlements are processed by the Human Resources Department accordingly. With regard to part (d) of the recommendation, adjustments were made in the system to recognize the receivable.					
64	2016	172	The Board recommended that UNRWA: (a) expedite expansion of the mobile ATM to areas where families are not directly reached by the Jordan Ahli Bank service and establish an appropriate solution to meet the primary objective of the e-card system; and (b) in collaboration with the World Food Programme and Jordan Ahli Bank, enhance the ATM system to resolve the system configuration issue that interferes with the beneficiaries' ability to withdraw their deposits.	UNRWA confirms that all steps have been taken to explore additional locations and, as of October 2017, six additional areas have been included in the mobile ATM. With regard to withdrawal of the full amount, this is not recommended and will entail a cost to the Agency, as additional transaction costs will be involved for the second withdrawal. However, the Agency has trained a number of families on how to withdraw the money.	The Board has assessed the steps taken by the Agency and therefore considers that the recommendation has been implemented.	X			
65	2016	177	The Board recommended that UNRWA: (a) conduct quarterly review on drug consumption for health centres and use them in forecasting consumption and stock requirements; and (b) ensure the effective use of the REACH system by the Procurement Division and the Department of Health in	Quarterly stocktaking is conducted and is used in forecasting the consumption rate, but stock-out is caused by delay in supply of medicine and medical supplies from international suppliers due to the instability of the operating environment.	The Board has noted improvement in the 2017 audit and therefore considers that the recommendation has been implemented.	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			monitoring consumption rates and determining stock levels and reorder points.						
66	2016	182	UNRWA agreed with the Board's recommendation that it develop a disaster recovery plan for the Lebanon field office that clearly identifies roles and associated responsibilities in case a disaster occurs.	A disaster recovery plan has been developed for the Lebanon field office and approved by management.	The disaster recovery plan has been developed, so the recommendation is fully implemented.	X			
67	2016	186	(a) Regularly conduct information security policy awareness training for its staff in order to improve information security practice at the Agency; and (b) ensure that the Security and Safety Section classifies security information on the basis of its criticality and sensitivity in accordance with the information security policy.	UNRWA conducted training on information security policy awareness during the year and evidence thereon was submitted to the Board. The classification of security information is still in progress.	Part (a) is closed, as training on information security policy has been conducted, while part (b) is under implementation. Overall, the recommendation is under implementation.		X		
68	2016	190	UNRWA agreed with the Board's recommendation that it establish a change advisory board at all field offices and ensure compliance with the change management procedure established in technical instruction No. 11.	Advisory boards have been established for all the field offices and therefore we consider this recommendation to be closed. A technical instruction on a change advisory board has been issued.	The Board reviewed the technical instruction issued and the list of members of the established board for each field and therefore considers that the recommendation has been implemented.	X			
69	2016	195	(a) Develop an internal audit manual that will guide the audit process and provide the Department with practical guidance and information for managing the internal audit activity, planning, execution and reporting of engagements; and (b) expedite the	The process of developing the audit manual is under way. With regard to the recruitment, two posts have been filled and one more is at the recruitment stage.	Part (b) is considered closed, while part (a) is still in progress.		X		

						Status after verification			
No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Implemented	Under implementation	Not implemented	Overtaken by events
			recruitment process for the vacant posts to allow smooth implementation of the 2017 audit plan.						
70	2016	201	The Board recommended that UNRWA: (a) systematically implement the quality assurance processes of evaluation function to improve the quality of evaluation reports; (b) streamline the decentralized evaluation functions and formalize the reporting structure to include evaluation roles in job descriptions of the focal persons in field and headquarters departments and report to the Department of Internal Oversight Services on evaluation; and (c) ensure that all evaluation recommendations including decentralized recommendations are followed up and tracked centrally for effective management of recommendations.	UNRWA has modified the job description of the decentralized evaluation function to enable the Department of Internal Oversight Services to better implement quality assurance procedures. Decentralized recommendations are now followed up and tracked centrally for effective management of recommendations.	In the light of initiatives undertaken by the Agency, the Board considers the recommendation as implemented.	X			
71	2016	202	The Board also recommended that UNRWA ensure (a) that evaluation reports are publicly accessible as required by organizational directive No. 14 and United Nations Evaluation Group Norms and Standards; and (b) that evaluation plans of fields and headquarters departments are systematically communicated to the Chief of the Evaluation Division for consolidation in the Department of Internal	Part (a) of the recommendation has been implemented, and the evaluation reports are now publicly accessible through the UNRWA website. The evaluation plans of fields and headquarters departments are also now communicated to the Department of Internal Oversight Services.	The recommendation is considered implemented, since the evaluation reports are available on the UNRWA website and the evaluation plans have been communicated to the Department of Internal Oversight Services.	X			

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						Implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
			Oversight Services annual evaluation plan.						
72	2016	207	The Board recommended that the Microfinance Department (a) ensure that regular project follow-up is carried out by loan officers and Area loan supervisors to obtain updated status on the progress of the client's projects in order to minimize the risks of incorrect acceptance of credit decision in the subsequent loan and decrease the risk of client default; (b) improve the loan approval processes to ensure that all supporting information is obtained and considered in the credit decision, to minimize risk of default; and (c) establish a loan compliance checklist with all relevant procedures for granting loans and require the loan officers to complete it before granting a loan.	Microfinance Department management issued instructions to branch managers to strictly adhere to project follow-up procedures and prepare follow-up reports and field visit reports for late payment clients and clients who changed their project locations on time and subject to approval by the Area Loan Supervisor and Branch Manager. Corrective actions already taken by related branches and new follow-up reports and field visit reports were printed and follow-up actions were documented. Some clients had already closed their loans, which were fully paid, with the risk of default therefore removed.	The Board is satisfied with actions taken by the Agency in carrying out project follow-up procedures and improvement in loan approval procedures and therefore closes the recommendation.	X			
73	2016	208	The Board reiterated its previous recommendation that the Microfinance Department (a) monitor the controls related to cashier functions and address non-compliance issues on a regular basis; (b) ensure that verification officers monitor the application controls related to cashier functions and address issues of non-compliance to Department management on a regular basis; (c) re-assign the function of cancelling cash-	Microfinance Department management issued instructions to cashiers to strictly adhere to cashiering functions and procedures. Corrective action was taken with regard to forms used by cashiers, all forms were adjusted as required, cheque registers were updated and the Finance Department has increased supervisory levels in respect of cashiers' functions. Microfinance Department management	In the light of the review of the submitted information and the improvement noted during the 2017 audit, the Board considers that the recommendation has been implemented.	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification: Implemented	Status after verification: Under implementation	Status after verification: Not implemented	Status after verification: Overtaken by events
			received vouchers to a person other than the cashier, so as to ensure proper segregation of duties; (d) make sure that full justification for the cancellation reasons is preapproved by the branch manager and documented for future reference; and (e) ensure that full and detailed information and analysis are obtained and carried out for both client and guarantor.	conducted training sessions to cashiers in all Microfinance Department fields of operation to improve skills and increase competence.					
74	2016	211	The Board recommended that UNRWA Microfinance Department (a) improve coordination between information technology and human resources departments such that access for every separating employee is revoked on the last day of employee service; (b) the use of accounts of separated employees is accompanied by formal documented exemption and approval by management to justify such access; and (c) ensure that separating employees accounts are deleted as part of the clearance procedures.	Regular validation for cross-checking of accounts is conducted between the Microfinance Department, information technology and human resources on a quarterly basis. A users' access control policy for software applications, including OMNI, is under finalization.	While the Board awaits finalization of the users' access control policy, it considers the recommendation to be under implementation.		X		
75	2016	214	The Board recommended that the Microfinance Department (a) ensure that password standards and other security features are strengthened to comply with best practices; and (b) review the list of accounts with non-expiring	The password setting for OMNI was updated to bring it into line with the Agency policy; in addition, a release was received from the vendor to set the password parameters at the central level.	Since the password setting has been updated to include features recommended in the Agency's policy, the Board considers that the recommendation has been implemented.	X			

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
			passwords and ensure that all enabled and non-service accounts are forced to change their passwords on a periodic basis, for instance every 30–45 days. Exceptions to this rule should be justified according to business and availability need and approved by management.						
76	2016	216	The Board recommended that the Microfinance Department liaise with the vendor supporting the OMNI application to obtain and document the details of the interest income calculation formulas or logic into formal technical and operational manuals for the Agency and submit these to the top management for approval.	The interest income equations/formulas were documented in accordance with the manual prepared by the Microfinance Department finance team.	The recommendation has been addressed by the Microfinance Department and the Board therefore considers it to have been implemented.	X			
77	2016	220	The Board recommended that the Microfinance Department (a) include external members on the Advisory Board as required by organizational directive No. 25 in order to benefit from their independent technical experience and expertise on microfinance operations within and outside the region; and (b) ensure that the Advisory Board includes members as specified in organizational directive No. 25 of 2003.	With regard to the absence of external members (local banker/economist and international microfinance expert), when the organizational directive was initially reviewed, it was recommended to invite external members as needed. However, upon further discussing the matter, it was decided to include local/international members. In that respect, and upon clearing the issues with the Deputy Commissioner-General, the Director of Finance and the Deputy Commissioner-General are	Since the process of appointing external members is under way, the Board considers the recommendation to be under implementation.		X		

No.	Year of audit report	Paragraph reference	Board's recommendations	UNRWA response	Board's assessment	Status after verification			
						Implemented	Under implementation	Not implemented	Overtaken by events
				now reviewing curricula vitae to appoint two external members to the Microfinance Department Advisory Board.					
	Total				77	**51**	**18**	**1**	**7**
	Percentage				**100**	**66**	**23**	**1**	**10**

Annex II

Summary of assets written off

(United States dollars)

Category	*2017*	*2016*	*Increase/(decrease)*
Cash	44	554	(510)
Inventory	464 177	99 936	364 241
Property	290 502	2 181 532	(1 891 030)
Outstanding contribution receivables	696 196	0	696 196
Outstanding account receivables	757 129	0	757 129
Outstanding loans receivables	960 663	924 426	36 237
Total	**3 168 711**	**3 206 448**	**(37 737)**

Source: UNRWA information.

Case number	*Office*	*Case type*	*Loss (United States dollars)*	*Description*	*Outcome*
INV-17-0048	Cairo liaison office	General fraud	Undetermined	Abuse by manager using office facilities and vehicles for personal use, in addition to procurement irregularities.	Unsubstantiated: however, audit report concluded that there were mismanagement issues.
INV-17-0102	Lebanon field office	Theft	600	Staff member attempted to steal food and cleaning supplies from a facility kitchen.	Substantiated: sanction decision pending.
INV-17-0103	Gaza field office	Corruption	Undetermined	Human rights assistant alleged to have accepted bribes to favour candidates in a recruitment process.	Unsubstantiated: complainant uncontactable.
INV-17-0112	Headquarters in Amman	Entitlement fraud	–	Allegation that staff member was receiving excessive rental subsidy.	Unsubstantiated: no fraud.
INV-17-0124	Gaza field office	Corruption	–	Complainant accused staff member of accepting a bribe in return for offering his wife employment.	Closed: complaint was withdrawn.
INV-17-0129	Syrian Arab Republic field office	General fraud	–	Accusation that manager takes a share from staff overtime payments in return for granting annual leave.	Closed: case declined unsubstantiated allegation.
INV-17-0135	West Bank field office	Theft	Undetermined	Staff member accused of using agency fuel for a private vehicle and of stealing a cupboard.	Closed: staff member resigned and emigrated.
INV-17-0164	Headquarters in Amman	General fraud	950	Event organizer charged agency for personal hotel expenses and intervened inappropriately in a procurement contract.	Substantiated: sanction decision pending. Money recovered from staff member.
INV-17-0168	Headquarters in Amman	General fraud	–	Ex-contractor handling donor relations may have mishandled expenses and misrepresented or deleted data to cover misappropriation of funds.	Unsubstantiated: lack of evidence.
INV-17-0169	Gaza field office	Entitlement fraud	–	Staff member submitted expenses claims relating to an injury using potential fraudulent documents.	Unsubstantiated: lack of evidence.
INV-17-0186	Jordan field office	Procurement irregularities	–	Procurement staff member raised a series of systemic issues with regard to procurement that initially alluded to potential fraud.	Closed: no misconduct identified.
INV-17-0189	Jordan field office	General fraud	4 475	Financial audit discovered embezzlement of funds intended for hardship cases.	Substantiated: sanction decision pending.
INV-17-0193	Gaza field office	General fraud	–	Teacher may have used a school invoice book to make personal claims billed to the agency.	Unsubstantiated: lack of evidence.

Annex III

Cases of fraud and presumptive fraud reported to the Board for the year 2017

Case number	*Office*	*Case type*	*Loss (United States dollars)*	*Description*	*Outcome*
INV-15-0014	Gaza field office	General fraud	Undetermined	Allegations of financial irregularities and misrepresentation of physical stock at Sulafa Embroidery Centre.	Substantiated: letter of censure issued.
INV-16-0004	Gaza field office	Theft	–	An employee is alleged to have asked for money in return for employment.	Unsubstantiated: problem with the identity of the suspected perpetrator.
INV-16-0148	Syrian Arab Republic field office	General fraud	–	Salaries paid to staff despite long-term absence and post abandonment.	Unsubstantiated: staff were on special leave without pay.
INV-16-0159	Gaza field office	Corruption	–	Social worker using her position to provide beneficiaries with money to which they are not entitled.	Closed: unsubstantiated.
INV-16-0213	Gaza field office	Theft	3 839	A staff member responsible for dispensing medicine stole from an UNRWA pharmacy.	Substantiated: a fine of two weeks' salary and transfer to a lower grade position.
INV-16-0345	Syrian Arab Republic field office	General fraud	–	Staff member requested money in exchange for offer of employment.	Unsubstantiated: staff member retired.
INV-17-0009	Gaza field office	General fraud	–	Beneficiary suspects that staff are stealing petrol, obtaining fraudulent reimbursements and unfairly distributing plastic covers.	Unsubstantiated: lack of credible leads.
INV-17-0011	Jordan field office	Entitlement fraud	–	Staff member was seen working at a private pharmacy for two days while on sick leave.	Substantiated: sanction decision pending.
INV-17-0012	Jordan field office	Entitlement fraud	–	Staff member alleged to have submitted inappropriate medical insurance claim for a dependent.	Unsubstantiated: no intention to defraud.
INV-17-0013	Jordan field office	General fraud	1 400	Beneficiary claimed that a staff member withheld and kept assistance money provided to students leaving the Syrian Arab Republic.	Substantiated: sanction decision pending.
INV-17-0020	Jordan field office	Entitlement fraud	–	Staff member submitted falsified sick leave medical certificate.	Substantiated: sanction decision pending.
INV-17-0024	Gaza field office	Entitlement fraud	–	UNRWA doctor under pressure to sign fraudulent sick leave claim for the brother of a staff member.	Closed: management intervention for minor misconduct.
INV-17-0034	Lebanon field office	Theft	2 000	Burglary of four laptop computers from a clinic.	Unsubstantiated: no subjects identified.

Case number	Office	Case type	Loss (United States dollars)	Descript	Outcome
INV-17-0203	Lebanon field office	Procurement irregularities	–	Allegation of collusion and confidential bidding information leaks in procurement process for construction at Nahr el-Bared camp.	Unsubstantiated: no evidence.
INV-17-0222	Jordan field office	Entitlement fraud	–	Staff member took sick leave for foreign travel.	Substantiated: sanction decision pending.
INV-17-0232	Lebanon field office	General fraud	Undetermined	Two students enrolled at a school but never attended, despite false certification being prepared to conceal the fact.	Substantiated: sanction decision pending.
INV-17-0307 and 17-0254	Jordan field office	Medical insurance fraud	–	Medical insurance fraud by staff members making false claims.	Substantiated: sanction decision pending.
INV-17-0363	Lebanon field office	Procurement irregularities	–	Social media article contained an allegation that UNRWA books are being sold in the private sector, citing potential procurement irregularities.	Unsubstantiated: recorded for information.
Total			**13 264**		

Chapter III

Certification of the financial statements

Letter dated 31 March 2018 from the Director of Finance of the United Nations Relief and Works Agency for Palestine Refugees in the Near East addressed to the Chair of the Board of Auditors

Pursuant to financial regulations 11.4 and 12.1, I have the honour to submit the financial statements for the United Nations Relief and Works Agency for Palestine Refugees in the Near East for the year ended 31 December 2017.

I certify that all transactions have been properly recorded in the accounting records and properly reflected in the Agency's financial accounts and appended statements, which I hereby certify as accurate and representative of the Agency's operating activities and the financial state of affairs as at 31 December 2017.

(*Signed*) Shadi **El-Abed**
Director of Finance

Chapter IV

Financial report for the year ended 31 December 2017

A. Introduction

Statement of the Commissioner-General

1. In accordance with regulations 11.2 and 11.4 of the Financial Regulations and Rules of the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), I have the honour to submit the financial statements of UNRWA for the year ended 31 December 2017, which I hereby approve. The financial statements have been prepared and certified as correct by the Director of Finance.

B. Financial and budget analysis

Summary

2. The year 2017 has been another challenging one for UNRWA, its donors and its beneficiaries. The Agency continues to play an essential role in providing vital services for the well-being, human development and protection of more than 5 million registered Palestine refugees and the amelioration of their plight, pending the just resolution of the question of Palestine refugees.

3. Throughout 2017, UNRWA sustained its efforts to meet the needs of Palestine refugees across its five fields of operation, despite the challenges associated with the dramatic deterioration of the political and security environment, specifically, access problems in the West Bank, the continuing blockade of the Gaza Strip, the persistent armed conflict in the Syrian Arab Republic and the security concerns with which the Agency is faced on a daily basis.

4. Notwithstanding the difficult financial climate, donors continued to provide support, with $1,207.4 million in contributions, allowing UNRWA to continue to provide assistance to beneficiaries and to address emergencies in the Gaza Strip and the Syrian Arab Republic.

5. The financial statements have been prepared on the accrual basis of accounting, in accordance with the requirements of the International Public Sector Accounting Standards (IPSAS). Where IPSAS is silent concerning a specific matter, the appropriate International Financial Reporting Standard or International Accounting Standard is applied.

6. The previous biennial budget (for 2016–2017) was presented on a modified cash basis. As that basis differs from the accrual basis applied to the financial statements, reconciliation between the budget and the cash flow statement is provided in accordance with the requirements of IPSAS 24.

Financial performance for 2017

7. The Agency's total revenue and income for 2017 was $1,238.9 million, compared with total expenses of $1,310.4 million, resulting in a net shortfall of $71.6 million for 2017.

8. Detailed information on the financial performance of each fund is contained in note 33 to the financial statements and is summarized in table IV.1.

Table IV.1

Summary financial performance by fund for the period ended 31 December 2017

(Millions of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	Programme budget	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund elimination*	*Total*
Total revenues	690.1	22.9	12.3	355.9	212.2	(54.4)	1 238.9
Total expenses	773.1	22.8	9.2	402.6	157.1	(54.3)	1 310.4
Surplus/(deficit) for the year	**(83.0)**	**0.2**	**3.1**	**(46.7)**	**55.0**	**(0.1)**	**(71.6)**

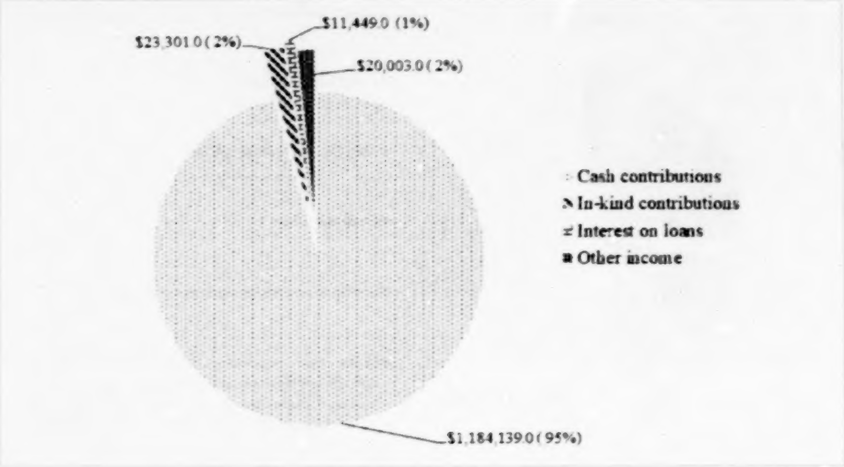
9. The programme budget and the emergency appeal recorded deficits of $83.0 million and $46.7 million, respectively. The deficit in the programme budget is primarily due to the unfunded end-of-service liabilities of $815.1 million, with interest costs of $23.8 million, service costs of $47.0 million and past service costs of ($1.5 million) contributed during the year. The deficit in emergency appeals is due to accrued expenses and committed payables at year end due to timing difference in the receipt of income. Emergency appeal funding from major donors was received in January 2018, except one major donor who has chosen to withhold funding, expected to be received at the end of the year 2017.

10. The restricted funds and the Microfinance Department reflected a surplus of $0.2 million and $3.1 million, respectively. The projects funds recorded a surplus of $55.1 million, owing primarily to revenue recognized for projects against which expenses will be incurred in future periods.

Revenue analysis

11. Cash contributions are the primary source of revenue for the Agency, providing approximately 96 per cent ($1,184.1 million) of total revenue. In-kind contributions for earmarked activities (restricted funds, emergency appeals and projects) recognized under IPSAS were valued at $23.3 million. This is an important element, allowing the Agency to carry out its activities, and includes food and medical supplies, school textbooks, in-kind services for consultancy and project staff and the use of land for UNRWA facilities, such as schools and health clinics.

Figure IV.I
Revenue and income sources



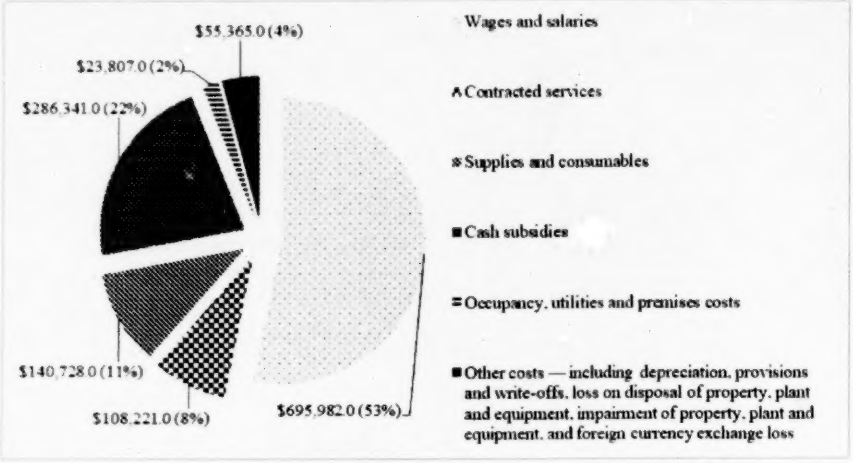
12. The Agency's mandate is determined, inter alia, by relevant General Assembly resolutions, including resolution 302 (IV) of 8 December 1949 establishing UNRWA and subsequent resolutions adopted annually, in particular the resolutions regarding assistance to Palestine refugees (most recently, resolution 72/80), persons displaced as a result of the June 1967 and subsequent hostilities (most recently, resolution 72/81), and operations of UNRWA (most recently, resolution 72/82). At its seventy-first session, the United Nations General Assembly extended the Agency's mandate until 30 June 2020 (see resolution 71/91). The Advisory Commission of UNRWA is tasked with advising and assisting the Commissioner-General in carrying out the Agency's mandate and consists of 27 members and 3 observers. UNRWA is also endeavouring to widen its donor base with potential supporters on all continents, with a focus on regional and emergency donors. The Agency is at the same time engaged in developing funding from the private sector.

Nature of expense analysis

13. The Agency spent a total of $1,310.4 million in 2017. Staff costs of $696.0 million represented 53 per cent of total expenses. As previously highlighted, accrual accounting for post-employment and other long-term employee benefits requires that the cost of the schemes be recorded as the benefits are earned by staff, rather than on a pay-as-you-go basis. This methodology allows the Agency to better account for the true cost of employing its staff on an annual basis.

Figure IV.II

Expense analysis by nature of expense



14. A total of $108.2 million was spent on contracted services, representing expenses relating to the Agency's engagement of third parties to perform work on its behalf. Of that amount, $31.1 million was spent on equipment and construction, which includes shelters and equipment that were donated to UNRWA beneficiaries and therefore expensed, as well as minor equipment for use by the Agency which falls below the capitalization threshold. A total of $26.2 million under the category of contracted services was spent on hospital services for the benefit of refugees.

15. A total of $140.7 million was spent on supplies and consumables, including $76.9 million for basic commodities and $3.5 million for fresh food. An amount of $21.9 million was spent on medical supplies, and $5.3 million was spent on text and library books. The sum of $10.8 million was spent on transportation supplies.

16. A total of $286.3 million was spent on subsidies, including $210.9 million distributed to beneficiaries providing selective cash assistance for conflict-affected Palestine refugees in the Gaza Strip and the Syrian Arab Republic, for food security and for rent subsidies. The sum of $49.4 million was provided as subsidies for the construction and repair of shelters, and $4.6 million was provided for patient subsidies.

17. Occupancy and utility costs totalled $23.8 million in 2017. Other expenses, amounting to $55.4 million, included depreciation, provisions and write-offs, loss on disposal, impairment of fixed assets and foreign currency exchange loss.

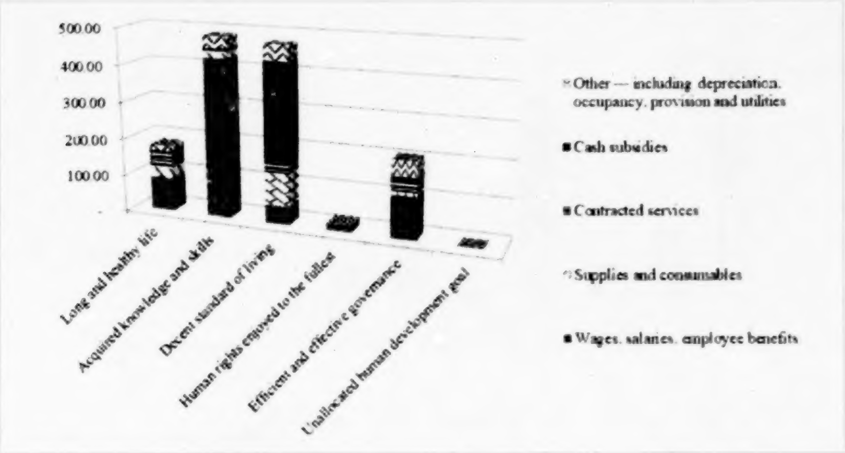
Human development goals and Agency programmes: expense analysis

18. As part of its planning approach, UNRWA has four human development goals to provide it with direction in fulfilling its mission of helping Palestine refugees and the aim of accomplishing the goals with efficient and effective governance. The goals are (a) a long and healthy life; (b) acquired knowledge and skills; (c) a decent standard of living; and (d) human rights enjoyed to the fullest. The amounts spent on each are shown in figure IV.III.

Figure IV.III

Expense analysis by human development goal[a]

(Millions of United States dollars)



[a] $80.8 million in headquarters expenses and $54.4 million in inter-segment eliminations are excluded from the analysis.

19. The Agency is functionally organized under five core programmes that provide direct services to UNRWA beneficiaries, led by executive direction and supported by support departments. Figure IV.IV below shows the 2017 expenses by programme and expenses for executive direction and support departments. The programmes follow a similar expense profile to those categorized by human development goal.

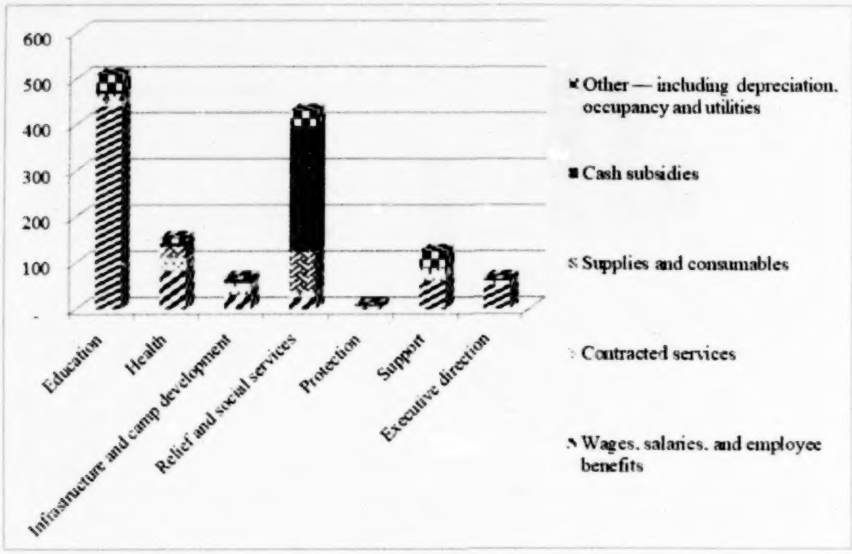
20. The objectives of the human development goal of a long and healthy life are to ensure universal access to quality comprehensive primary health care, protect and promote family health, and prevent and control diseases. An amount of $180.7 million (13 per cent of the Agency's total expenses) was spent in pursuit of this goal, which is supported through the health programme ($154.1 million). Approximately 54 per cent ($82.5 million) of the expenses dedicated to pursuing this goal was spent on wages and salaries, with 17 per cent ($26.2 million) spent on medical supplies and consumables and 19 per cent ($28.5 million) on contracted services to enable Palestine refugees to gain access to health-care services and to support the environmental health subprogramme. An additional 3 per cent ($4.6 million) was spent on cash subsidies to further enable Palestine refugees to gain access to secondary and tertiary health-care services.

21. An amount of $485.9 million, representing 36 per cent of the Agency's 2017 expenses, was spent on the major goal of acquired knowledge and skills and delivered within the education programme ($508.0 million). The objectives are to ensure universal access to and coverage of basic education, enhance education quality and outcomes against set standards and improve access to education opportunities for learners with special education needs. The education programme also provides vocational and technical training and encourages the progression of students to higher education through scholarships. Given the nature of the programme and goal, the vast majority of the expenses in this area is spent on educational staff wages and salaries.

Figure IV.IV

Expense analysis by programme[a]

(Millions of United States dollars)



[a] $54.4 million in inter-segment eliminations are excluded from the analysis.

22. An amount of $473.4 million, or 35 per cent, of UNRWA expenses, supported the human development goal of a decent standard of living, delivered largely through the relief and social services and infrastructure and camp improvement programmes ($430.3 million and $68.9 million, respectively). The objectives are to reduce abject poverty, mitigate the effects of emergencies on individuals, offer inclusive financial services and increased access to credit and savings facilities, improve employability and improve the urban environment. Nineteen per cent of the expenses ($88.1 million) dedicated to the pursuit of this goal was spent on supplies and consumables, including the provision of food aid for Palestine refugees. An additional $266.3 million was provided in the form of cash subsidies.

23. An amount of $205.9 million, or 15 per cent, of the Agency's 2017 expenses, enables effective and efficient governance, which supports the activities to accomplish the four human development goals. Executive direction manages all aspects of the Agency's work to ensure efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to non-refugees on an exceptional basis, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors.

24. The support departments assist the Commissioner-General in the smooth running of the Agency and ensure effective management of personnel and financial resources, administrative services and internal communication. Expenses for executive direction and support departments amounted to $68.3 million and $125.4 million, respectively. Fifty-six per cent of the expenses for effective and efficient governance ($115.2 million) was spent on wages and salaries.

25. An amount of $18.9 million was spent on the human development goal of human rights enjoyed to the fullest extent possible. Objectives include ensuring that service delivery meets the protection needs of beneficiaries; safeguarding and advancing the rights of Palestine refugees; strengthening the capacity of refugees to formulate and implement sustainable social services in their communities; and ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards. The services provided for the achievement of those objectives are delivered largely through the relief and social services programme but also through education, health and camp infrastructure and improvement, together with the services provided to achieve the objectives of the human development goal of a decent standard of living. The Protection Division was established to provide strategic direction and coordination for the implementation of the diverse protection activities across the Agency. The Division, through its thematic experts, covers the areas of protection mainstreaming, child protection, gender and gender-based violence, disability and international protection. The total expenses spent on the Division in pursuit of this goal were $9.8 million.

Geographical location: expense analysis

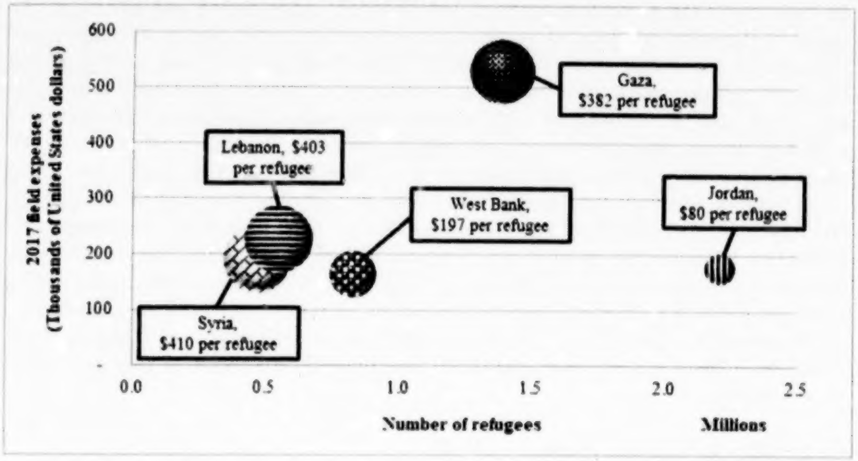
26. Although UNRWA goals and services are delivered primarily within a programme approach, its operations are managed on a field basis. UNRWA operates in five fields: Jordan, Lebanon, the Syrian Arab Republic and the Occupied Palestinian Territory (the West Bank, including East Jerusalem, and the Gaza Strip). Each field provides similar services, but is distinctive to some extent owing to the particular political, humanitarian and economic contexts in which the field operates and the status and rights of the Palestine refugees enjoyed in it. Figure IV.V shows the costs of UNRWA services per refugee for each field. The different levels of expenses reflect the situations prevailing in each of the fields.

27. The average 2017 expense per refugee in the Gaza field office is $382. The Gaza Strip has 1,386,455 registered Palestine refugees. Reconstruction of the extensive physical damage and destruction of the 50-day conflict in 2014 advanced despite Israeli restrictions on cement imports, machinery, steel, water pumps, elevators, which slowed progress. Additionally, operations continued to be burdened by the direct costs of the ongoing blockade, such as additional staffing, transit and logistical costs as a result of Israeli requirements regarding access and monitoring of the materials the Agency imports into the Gaza Strip, resulting in the highest average expense for the Agency per refugee in the field, which reflects the prevailing conditions. Lack of funding also remains a cause of slow progress. UNRWA continues its efforts to provide relief, education, health and other human development services in the aftermath of the hostilities and deteriorating socioeconomic conditions after almost 10 years of blockade. The Gaza field office supports 8 camps, 275 schools, 2 vocational and technical training centres, 22 primary health centres, 7 community rehabilitation centres and 7 women's programme centres.

28. The Lebanon field office has the lowest number of registered refugees, at just over 469,555 and the average expense per refugee is $403. Palestine refugees face challenges in relation to access to services and limitations on the right to practise certain professions and many live in UNRWA refugee camps. The field office supports 12 camps, 66 schools, 1 vocational and technical training centres, 27 primary health centres, and 8 women's programme centres. Average expense is higher in Lebanon owing to higher hospitalization and schooling costs.

Figure IV.V

Average 2017 expenses per registered refugee, by field[a]



[a] $80.8 million in headquarters expenses and $54.4 million in inter-segment eliminations are excluded from the analysis.

29. The West Bank field office serves more than 828,328 registered Palestine refugees, with one quarter of them living in 19 refugee camps. Palestine refugees in the West Bank continue to face several socioeconomic and other protection challenges and concerns arising from the ongoing Israeli occupation. The average 2017 expense per registered Palestine refugee in the West Bank is $197. In addition to the 19 camps, the field office supports 95 schools, 2 vocational and technical training centres, 43 primary health centres, 15 community rehabilitation centres and 19 women's programme centres.

30. The Syrian Arab Republic field office is mandated to provide services to nearly 551,873 Palestine refugees living in the official camps and the 3 unofficial camps in the Syrian Arab Republic. The average 2017 expense per registered refugee is $410. The ongoing armed conflict in the Syrian Arab Republic has, among other things, severely affected the economy, including the socioeconomic conditions of the Palestine refugee community. The field office supports 9 camps, 104 schools, the Damascus Training Centre, 26 primary health centres, 5 community rehabilitation centres, 11 women's programme centres and 12 community development centres.

31. Over 2,206,736 Palestine refugees are registered in Jordan. Most Palestine refugees in Jordan have full citizenship, with the exception of some 158,000 Palestine refugees displaced from Gaza as a result of the 1967 hostilities and their descendants ("ex-Gazans"). Ex-Gazan Palestine refugees and their descendants do not hold Jordanian nationality and thus have difficulty accessing certain public services and face restrictions on property ownership and political participation. Expense per refugee, at $80, representing the lowest average in 2017, reflects the situation of Palestine refugees living in Jordan. The field office supports 10 camps, 171 schools, 2 vocational and technical training centres, 25 primary health centres, 10 community rehabilitation centres and 14 women's programme centres.

32. UNRWA headquarters comprises three locations: the Gaza Strip, East Jerusalem and Amman. The headquarters organization includes the Department of Planning, the Department of Administrative Support, the Department of Internal Oversight Services, the Department of Human Resources, the Department of Legal Affairs, the Executive

Office, the Finance Department, the Information Management Department and the External Relations and Communications Department, as well as the departments of education, health, relief and social services, infrastructure and camp improvement, microfinance and the newly established Protection Division. The headquarters function is also carried out at representative offices in New York, Washington, D.C., and Brussels and at a liaison office in Cairo. Headquarters expenses comprise primarily wages and salaries ($35.6 million), contracted services ($14.5 million) and provisions and write-offs ($19.4 million) as the value added tax (VAT) and contribution receivables are managed at headquarters in the Gaza Strip and Amman.

Financial position at the end of 2017

33. The Agency's net assets/equity decreased from $142.6 million as at 31 December 2016 to $41.8 million as at 31 December 2017 owing to the deficit recorded for the year 2017 ($71.6 million) and actuarial losses on staff termination liabilities (of $30.1 million).

34. The financial position of each fund is detailed in note 33 to the financial statements and is summarized in table IV.2.

Table IV.2

Summary financial position by fund as at 31 December 2017

(Millions of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	Programme budget	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund elimination*	*Total*
Current assets	70.7	49.9	37.2	153.3	148.7	(1.2)	458.7
Non-current assets	498.5	1.9	3.5	3.5	19.9	–	527.3
Total assets	**569.2**	**51.8**	**40.7**	**156.8**	**168.6**	**(1.2)**	**986.0**
Current liabilities	169.9	3.9	1.5	17.9	10.3	(1.2)	202.3
Non-current liabilities	727.7	–	14.0	–	–	–	741.8
Total liabilities	**897.7**	**3.9**	**15.6**	**17.9**	**10.3**	**(1.2)**	**944.1**
Net assets/equity	**(328.5)**	**47.9**	**25.2**	**138.9**	**158.4**	–	**41.8**

35. The negative net assets/equity position of the programme budget is due to the significant post-employment benefits liabilities, which was recognized in the financial statements upon the adoption of IPSAS in 2012, and the cumulated deficit due to the funding shortfall during within the last two years.

36. The net assets/equity balance of the projects fund showed a balance of $158.4 million, due primarily to contributions received or pledged for specific projects against which expenses are expected to be incurred in future years.

37. Net assets/equity is divided into accumulated surplus of $77.7 million and reserves of negative $35.9 million.

38. Although there is a negative net current asset balance for the programme budget of $99.2 million, the net current assets (current assets less current liabilities) of the Agency were $256.3 million as at 31 December 2017 (compared with $295.0 million as at 31 December 2016), indicating a decline but positive short-term liquidity. The Agency's current assets amount to 47 per cent of its total assets, whereas current liabilities constitute 21 per cent of total liabilities.

Cash, cash equivalents and investments

39. Total cash amounted to $271.4 million as at 31 December 2017, a small portion of which is held by the programme budget (3.7 per cent) and restricted funds (14.7 per cent), with the majority falling under emergency appeals and projects (38.4 per cent and 38.7 per cent, respectively). UNRWA holds short-term investments of $263.1 million (bank deposits) which are classified as cash and cash equivalents.

Receivables

40. Contributions receivable represent confirmed agreements outstanding from donors that are due within 12 months and were valued, net of provision for estimated reductions in contribution revenue and doubtful accounts, at $40.9 million as at 31 December 2017, owing to programme budget ($16.1 million) projects ($10.2 million) and emergency appeals ($14.7 million).

41. Accounts receivable, net of provision, were valued at $23.5 million as at 31 December 2017. This amount relates primarily to significant value added tax refund claims of $111.2 million before provision, which are still due to the Agency for services and goods procured for the West Bank and the Gaza Strip, as well as $3.9 million related to personal accounts of UNRWA staff members. Loans receivable, net of provision, were valued at $30.2 million and relate to loans from the Microfinance Department and the microcredit community support programme. Of this amount, $25.7 million relates to short-term (current) loans receivable.

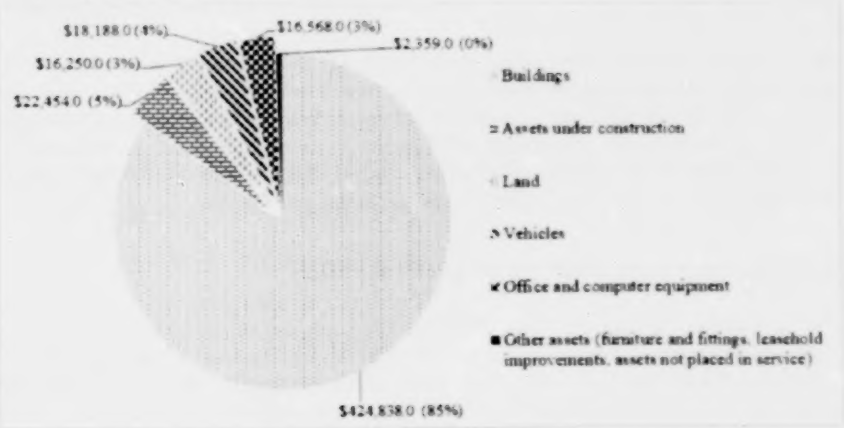
Inventories

42. The value of the Agency's inventory at the end of 2017 was estimated at $88.5 million, reflecting an increase of $11.7 million as compared with 31 December 2016 due primarily to the purchase of commodities such as flour, rice and medicines. Assets included shelters under construction ($9.5 million), non-Agency installations ($10.9 million) and warehouse inventory ($39.6 million), as well as inventory in transit valued at $10.8 million, consisting of medical supplies, food, motor transport and general supplies to be distributed to Palestine refugees. Pharmacy/health clinic inventory was valued at $17.5 million, and production unit inventory for the embroidery centre located in the Gaza Strip was valued at $0.2 million.

Property, plant and equipment

43. The total net carrying amount of property, plant and equipment as at 31 December 2017 was $500.7 million, representing 51 per cent of total Agency assets. This item is composed mainly of buildings used for the provision of services to UNRWA beneficiaries.

Figure IV.VI
Property, plant and equipment



44. Assets under construction amounted to $22.5 million as at 31 December 2017, relating largely to specific construction projects under the restricted funds and projects segments. Upon the completion of capital projects using earmarked funds, assets are transferred to the programme budget for use in the delivery of the Agency's core services to Palestine refugees.

45. Land was valued at $16.3 million as at 31 December 2017. This figure appears relatively low because host Governments and some charitable organizations provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The leases under these contracts have been assessed as operating leases, and therefore such land is not included in the UNRWA balance sheet.

Employee benefits liabilities

46. The Agency has significant liabilities relating to post-employment and other long-term employee benefits. Those liabilities amounted to $815.1 million as at the end of 2017, reflecting an increase of $69.3 million during the year. The employee benefits liabilities represent 86.3 per cent of the Agency's liabilities, with $84.1 million categorized as current liabilities and $731.0 million as non-current liabilities. Actuarial valuations have been used for termination and separation costs, employee disability and death-in-service benefits, accumulated annual leave, after-service health insurance and repatriation benefits. The increase during the year is due primarily to the change in the discount rate from 4.00 per cent to 3.51 per cent on account of the continuing low interest rate environment ($39.2 million) and the interest and service costs incurred during the year ($28.4 million and $47.0 million, respectively), partially offset by an actuarial gain of $9.1 million.

Budgetary analysis

Basis of the budget

47. The budget figures for UNRWA are determined on a modified cash basis and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2016–2017 programme budget (Blue Book). The budget for UNRWA includes the core requirements funded through the programme budget, which, if exceeded requires submission to the General Assembly; and an

in-kind donation budget and a projects budget, where allocation varies based on donor response.

Explanation of material differences

48. The 2017 programme budget, projects budget and in-kind donation budget, as reflected in the Blue Book for 2016–2017, amounted to $964.1 million (on a modified cash basis). This is disclosed in financial statement V as "original" budget. The final 2017 programme budget was $1.143 million and is disclosed in financial statement V as "final" budget accordingly. The increase of $178.9 million, or 18.6 per cent, is primarily due to an increase in the final projects budget.

C. Enhancing transparency and accountability

49. Financial regulation 5.2 requires that the Commissioner-General of UNRWA maintain a system of internal controls to provide for an effective current examination or review of financial transactions to ensure the regularity of the receipt, custody and disposal of the resources of the Agency, to ensure the conformity of all expenses with the provisions of the Financial Regulations, and to detect any uneconomic use of the resources of the Agency.

50. The Agency has a system of internal controls that are intended to safeguard assets, ensure adherence to regulations and rules, including management policies and procedures, and prevent fraud. To enhance transparency and control and ensure that no single individual has the final say in decisions, most high-level managerial responsibilities and decisions are administered by committees. The Agency has established detailed instructions and procedures to ensure effective financial administration and the exercise of economy. There are also organizational directives to guide the day-to-day running of the Agency and ensure adherence to internal controls.

51. In addition, the annual workplan of the Department of Internal Oversight Services includes reviews of the Agency's system of internal controls and makes recommendations for improvements. The Department's workplan and resulting reports are considered by the Agency's independent external oversight body, the Advisory Committee on Internal Oversight, which provides advice on this and financial accountability in general to the Commissioner-General.

52. Furthermore, monthly financial reports are issued to members of the Management Committee of UNRWA and to major donors. This has increased transparency both internally and externally. The reports to senior management have served to strengthen its focus on identified financial risks.

D. Enterprise and financial risk management

Enterprise risk management

53. A broad spectrum of risks is associated with the existence and the operations of UNRWA. The risks fall mainly in the broad categories of operational, environmental and financial risk. The management of risks is aimed at reducing the Agency's exposure to various forms of loss and, more critically, to shortcomings in the delivery of services to the Palestine refugees in the areas of education, health, relief and social services, and infrastructure and camp improvement.

54. "Operational risk" refers mainly to the risk of failing to deliver the services for which, according to its mandate, the Agency exists. Such risk is managed through

proper planning, control and performance reviews and evaluations in the Agency's main areas of operation (education, health, relief and social services, and infrastructure and camp improvement).

55. Operational risk is also managed at the field level. Given the similarities, yet the distinctive operational nature, of the five fields, the responsibility for the delivery of services to UNRWA beneficiaries was devolved to them. While guided by the Agency's goals and programmes of priority services, this devolution to operational fields has provided greater discretion to field offices in the provision of services geared towards local needs, taking into account the realities in the field and the field's available resources. Such devolution, along with centralized policymaking and the regular monitoring of results, provides for enhanced management of the Agency's operational risk.

56. "Environmental risk" is the inherent risk associated with the volatile nature of the environment in which the Agency operates. Such risk is managed through recognition of the potential danger and the political and security concerns posed by the conflicts in the greater Middle East, particularly in the areas in which the Agency operates: Jordan, the Syrian Arab Republic, Lebanon, the West Bank and the Gaza Strip. The security alerts are set at the appropriate levels, and all risk-mitigating elements are installed and monitored on an ongoing basis.

Financial risk management

57. The Agency is prone to exposure to various forms of financial risk, the greatest of which is the risk of failure to have sufficient financial resources to achieve the planned objectives and activities. The source of funding for operations aimed at meeting the objectives of the Agency and the needs of the refugees is predominantly the donor community. The uncertainty surrounding the timing and the actual amounts of voluntary contributions also poses some financial risk when it comes to planning. Such risk is managed in the best way possible by considering the available information and providing for inflows in the most prudent manner.

58. The Agency's activities expose it to various financial risks, primarily the effects of changes in foreign currency exchange rates, given that most contributions are in currencies other than the Agency's reporting currency, the United States dollar. Consequently, UNRWA financial risk management focuses on the unpredictability of foreign exchange rates and seeks to minimize, where feasible, potential adverse effects on the Agency's financial performance. Financial risk management is carried out by a central treasury function using UNRWA technical guidelines covering areas of financial risk, such as foreign exchange, the use of derivative financial instruments and the investment of excess liquidity. There is no perceived risk that receivables and payables will not be liquidated when they fall due.

59. The Agency's employee benefits liabilities totalled $815.1 million as at 31 December 2017. UNRWA has sought advice from independent actuaries in establishing the value of those liabilities. The funding of employee benefits liabilities remains a long-term risk for the Agency. UNRWA adopts a pay-as-you-go method and the cash to be paid for the coming year is planned and budgeted. For the long-term portion of the liabilities, the matter is inherently tied to the nature of UNRWA and its temporary mandate. It is fully expected that when there is a sustainable political solution resolving the displacement of Palestine refugees, this solution will address, among other matters, the future of UNRWA activities along with the dissolution of its assets and liabilities.

60. The Agency relies on funding from various donors, which are managed through an extensive outreach programme. It is further working towards expanding its donor

base with potential supporters, with a focus on regional and emergency donors. The Agency is at the same time engaged in developing funding from the private sector, in order to manage this risk.

E. Responsibility

61. In accordance with regulations 11.2 and 11.4 of the Financial Regulations and Rules of UNRWA, I am pleased to submit the Agency's financial statements, which have been prepared under IPSAS (see chap. V). The financial statements have been certified as correct by the Director of Finance.

Chapter V

Financial statements for the year ended 31 December 2017

United Nations Relief and Works Agency for Palestine Refugees in the Near East

I. Statement of financial position as at 31 December 2017

(Thousands of United States dollars)

	Reference	*31 December 2017*	*31 December 2016*
Assets			
Current assets			
Cash and cash equivalents	Note 4	271 423	267 225
Short-term loans receivable	Note 5	25 678	25 073
Contributions receivable	Note 6	40 944	51 262
Accounts receivable	Note 7	23 481	23 562
Other current assets	Note 8	8 674	2 950
Inventories	Note 9	88 459	76 760
Derivative financial assets	Note 10	–	56
Non-current assets			
Other non-current assets	Note 8	96	142
Long-term loans receivable	Note 5	4 497	3 988
Property, plant and equipment	Note 11	500 657	492 732
Intangible assets	Note 12	22 075	29 139
Total assets		**985 984**	**972 889**
Liabilities			
Current liabilities			
Payables and accruals	Note 13	110 182	70 238
Employee benefits	Notes 14 and 15	84 094	77 324
Derivative financial liabilities	Note 10	–	7
Other current liabilities	Note 16	7 977	679
Advance contributions	Note 17	96	3 603
Non-current liabilities			
Employee benefits	Notes 14 and 15	731 028	668 536
Other non-current liabilities	Note 16	10 760	9 875
Total liabilities		**944 137**	**830 262**
Net assets		**41 847**	**142 627**
Net assets/equity			
Revaluation and other reserves		(64 758)	(34 588)
Capital reserve: microcredit community support programme and Microfinance Department	Note 19	28 861	27 919
Accumulated surplus		77 744	149 296
Total net assets/equity		**41 847**	**142 627**

United Nations Relief and Works Agency for Palestine Refugees in the Near East

II. Statement of financial performance for the year ended 31 December 2017

(Thousands of United States dollars)

	Reference	*2017*	*2016*
Revenue			
Cash contributions	Note 20	1 184 139	1 209 487
In-kind contributions	Note 21	23 301	32 529
Interest on loans	Note 22	11 449	10 632
Interest on bank deposits	Note 23	2 626	631
Other revenue			
Foreign currency exchange gain	Note 24	6 216	–
Indirect support cost recovery	Note 25	180	180
Financial derivative gain	Note 10	70	8 834
Miscellaneous revenue	Note 26	10 911	12 392
Total revenue		**1 238 892**	**1 274 685**
Expenses			
Wages, salaries and employee benefits	Note 27	695 982	634 996
Supplies and consumables	Note 28	140 728	151 677
Occupancy, utilities and premises costs	Note 29	23 807	24 217
Contracted services	Note 30	108 221	144 008
Subsidies	Note 31	286 341	307 108
Depreciation and amortization	Notes 11 and 12	36 006	33 093
Provision and write-offs	Note 32	18 342	16 859
Loss on disposal	Note 11	289	2 181
Impairment of property, plant and equipment	Note 11	728	651
Foreign currency exchange loss	Note 24	–	1 971
Total expenses		**1 310 444**	**1 316 761**
Surplus/(deficit) for the year		**(71 552)**	**(42 076)**

United Nations Relief and Works Agency for Palestine Refugees in the Near East

III. Statement of changes in net assets/equity for the year ended 31 December 2017

(Thousands of United States dollars)

	Revaluation and other reserves[a]	*Reserves, microcredit community support programme and Microfinance Department*	*Accumulated surplus/ deficit unearmarked*	*Accumulated surplus/ deficit — earmarked*	*Total*
Balance at 1 January 2017	**(34 588)**	**27 919**	**(209 367)**	**358 663**	**142 627**
Reclassification of funds	–	–	29 404	(29 404)	–
Surplus/(deficit) for the period	–	–	(83 049)	11 497	(71 552)
Changes in revaluation reserve for derivative financial instruments	(49)	–	–	–	(49)
Reserves, microcredit community support programme and Microfinance Department, during 2017	–	942	–	–	942
Actuarial (loss) on staff termination liabilities[b]	(30 121)	–	–	–	(30 121)
Total net assets/equity	**(64 758)**	**28 861**	**(263 012)**	**340 756**	**41 847**

[a] See note 33.

[b] See note 15.12.

United Nations Relief and Works Agency for Palestine Refugees in the Near East

IV. Statement of cash flow for the year ended 31 December 2017

(Thousands of United States dollars)

	2017	*2016*
Cash flows from operating activities		
(Deficit) for the year	(71 552)	(42 076)
Adjustment for non-cash items		
Add depreciation and amortization	36 006	33 093
Loss on disposal	261	2 144
Impairment of property, plant and equipment	728	651
Impairment reversal adjustment	–	(152)
Actuarial (loss) on employee benefit liabilities	(30 121)	(5 042)
Increase in provision for doubtful debts	14 663	12 117
(Increase)/decrease in inventories	(11 699)	25 148
(Increase) in contributions receivable	(1 117)	(9 726)
(Increase) in accounts receivable	(2 803)	(3 763)
(Increase) in loans receivable	(1 456)	(3 012)
(Increase)/decrease in other assets	(5 678)	1 154
Increase in accounts payable and accruals	39 945	2 945
Increase in leave encashment and employee benefits	69 262	48 424
Increase/(decrease) in other liabilities	8 183	(4 759)
(Decrease) in advance contributions	(3 508)	(42 567)
Net cash from operating activities	**41 114**	**14 579**
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	29	43
Purchase of property, plant, equipment and adjustment	(37 505)	(56 323)
Purchase of intangible assets	(381)	(24)
Net cash from investing activities	**(37 857)**	**(56 304)**
Cash flows from financing activities		
Increase in capital reserve for Microfinance Department and microcredit community support programme	941	166
Net cash from financing activities	**941**	**166**
Net increase/(decrease)/in cash	4 198	(41 559)
Cash balance at the beginning of the year	267 225	308 784
Cash balance at the end of the year	**271 423**	**267 225**

United Nations Relief and Works Agency for Palestine Refugees in the Near East

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2017

(Thousands of United States dollars)

		Budget amounts		*Actual on comparable basis*	*Variances: final budget and actual*
	Reference	*Original*	*Final*		
International staff					
Staff costs		33 827	44 714	37 914	6 800
Area staff					
Basic salary		411 876	393 607	383 818	9 789
Hazard pay and special elements		–	201	308	(107)
Provident Fund Agency contribution		60 949	56 866	58 150	(1 284)
Special professional occupational allowance, special occupational allowance and others		12 781	12 130	7 007	5 123
Overtime and excess hours supplement		1 004	1 202	1 074	128
Currency adjustment factor		3	62	4 342	(4 280)
Special allowance		18 506	27 814	28 581	(767)
Health-related expenses		8 740	8 393	8 998	(605)
Other miscellaneous staff costs		176	182	147	35
Severance cash payment out		33 527	37 800	31 460	6 340
Limited duration contract		2 563	5 760	3 748	2 012
Temporary staff		10 034	18 730	17 737	993
Total staff costs (A)	Note 34	**593 986**	**607 461**	**583 284**	**24 177**
Non-staff costs					
Supplies		57 990	68 989	65 429	3 560
Utilities		6 604	7 111	7 085	26
Maintenance of premises		10 168	17 652	13 963	3 689
Equipment and non-capital construction		131 846	148 451	104 460	43 991
Training		1 553	4 203	2 717	1 486
Travel		2 268	3 191	2 659	532
Administrative support services		6 346	8 449	7 722	727
Consultancy services		6 740	14 428	10 974	3 454
Hospital services		19 987	29 164	27 808	1 356
Miscellaneous services		15 297	19 848	16 600	3 248
Subsidies to hardship cases		9 328	37 180	33 537	3 643
Subsidies to patients		9 458	3 996	3 340	656
Third-party subsidies		71	15 817	15 259	558
Other subsidies		362	80 046	46 123	33 923
Cost recovery		(2 419)	(4 819)	(3 809)	(1 010)
Reserves		94 508	81 808	–	81 808
Total non-staff costs (B)	Note 34	**370 107**	**535 514**	**353 867**	**181 647**
Total resources requirements (A+B)	Note 34	**964 093**	**1 142 975**	**937 151**	**205 824**

United Nations Relief and Works Agency for Palestine Refugees in the Near East

Notes to the 2017 financial statements

Note 1
Mission statement

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA or the Agency) is a United Nations agency established by the General Assembly in 1949 and is mandated to provide assistance and protection to a population of some 5 million registered Palestine refugees. Its mission is to help Palestine refugees in Jordan, Lebanon, the Syrian Arab Republic, the West Bank and the Gaza Strip to achieve their full potential in human development, pending a just solution to their plight. UNRWA services encompass education, health care, relief and social services, camp infrastructure and improvement, microfinance and emergency assistance. UNRWA is funded almost entirely by voluntary contributions.

Note 2
Summary of significant accounting policies

(a) Basis of presentation

2.1 The financial statements have been prepared on the accrual basis of accounting, in accordance with the requirements of the International Public Sector Accounting Standards (IPSAS). Where IPSAS is silent concerning any specific matter, the appropriate International Financial Reporting Standard or International Accounting Standard is applied.

2.2 There are currently no standards issued by the IPSAS Board awaiting implementation that would be likely to affect the financial statements of UNRWA.

(b) Accounting convention

2.3 The financial statements have been prepared using the historical cost convention, except for some financial instruments that are carried at fair value, and donated inventory or property, plant and equipment, which are valued at fair value.

(c) Functional currency and translation of foreign currencies

Functional and presentation currency

2.4 The financial statements are presented in United States dollars, and all values are rounded to the nearest thousand. The functional currency of the Agency is the United States dollar, with the exception of the Microfinance Department, which uses the Syrian pound as the functional currency in the Syrian Arab Republic and the Jordanian dinar as the functional currency in the West Bank and Jordan.

Transactions and balances

2.5 Foreign currency transactions are translated into United States dollars using the United Nations operational rates of exchange, which approximate the exchange rates prevailing at the dates of the transactions. The United Nations operational rates of exchange are set once a month and are revised mid-month if there are significant exchange rate fluctuations relating to individual currencies.

2.6 Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at the year-end closing rate of the United Nations operational rates of exchange.

2.7 Both realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation, at year-end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of financial performance.

Management of currency risks

2.8 The primary principle of the currency risk management policy of UNRWA is the preservation of the value of its financial resources in United States dollar terms. The Agency's currency risk can be identified mainly as a potential loss in the value of non-received non-United States dollar contributions and non-United States dollar cash assets as a result of a strengthening United States dollar. The risk arises from the date on which the contributions are pledged. To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach (e.g. hedging) to minimize its exposure to exchange rate fluctuations. To hedge the currency risk, UNRWA entered into several forward contracts in 2017 for expected non-United States dollar programme budget contributions; however, none were outstanding for 2018 (see note 10).

2.9 Such hedges are consistent with the Agency's risk management objective and strategy, given that they remove the risk of an appreciation of the United States dollar and provide a fixed known income amount. The gain or loss from hedging will be offset by the foreign exchange gain or loss from donor contributions.

2.10 The Agency provides protection against volatility in local currencies (currency adjustment factor) to its area staff for their salaries. Its currency risk management policies allow hedging against local currencies to reduce exposure arising from fluctuations in exchange rates between the United States dollar and local currencies (see note 10).

(d) Materiality and use of judgment and estimates

2.11 Materiality is central to the Agency's financial statements. The Agency's accounting materiality framework provides a systematic method for identifying, analysing, evaluating, endorsing and periodically reviewing materiality decisions that affect a number of accounting areas.

2.12 The financial statements necessarily include amounts based on judgments, estimates and assumptions by management. Changes in estimates are reflected in the period during which they become known.

(e) Significant accounting policies

Cash and cash equivalents

2.13 Cash and cash equivalents include cash on hand, cash at banks and other short-term highly liquid investments with original maturities of two to three months.

Revenue

2.14 Revenue is recognized in the statement of financial performance when an increase in future economic benefits relating to an increase in an asset or a decrease in a liability has arisen from a mutually agreed interaction between two parties and can be measured reliably.

(i) Revenue from non-exchange transactions

Contributions are recognized in accordance with IPSAS 23, Income from non-exchange transactions. For unconditional contributions, revenue recognition occurs when the contributions are confirmed in writing by donors. However, if conditions requiring specific performance and the return of unexpended balances exist, then revenue is recognized upon provision of the goods and services. When projects come to an end, and in the event that some contributions are not fully expended on the project for which they were given, then at that point in time, and in accordance with the donor agreement, the amounts that will not be expended will be recognized as amounts to be refunded to donors and included in the statement of financial position and, as other income (expense), in the statement of financial performance. Contributions received from donors in advance are recorded as other liabilities in the statement of financial position until the criteria for recording revenue are met. Notes 20 and 21 provide further details of cash contributions revenue and in-kind contributions revenue, which are recognized in accordance with this policy.

(ii) Revenue from exchange transactions

Revenue from exchange transactions is recognized in accordance with IPSAS 9. When the amount of revenue can be measured reliably, it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, the stage of completion of the transaction at the reporting date can be measured reliably and the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Notes 22 to 26 give further details of revenue earned from exchange transactions, which is brought to account in accordance with this policy. This includes revenue from interest on loans and interest on bank deposits, gains and recoveries, as well as revenue from miscellaneous sources.

Contributions receivable

2.15 Contributions and contributions receivable are presented net of provision for estimated reductions in contribution revenue and doubtful accounts.

2.16 In-kind contributions of services that directly support approved operations and activities, and that have budgetary impact and can be reliably measured, are recognized and valued at fair value. Such contributions include the use of premises, vehicles and personnel.

2.17 Donated inventory or property, plant and equipment are valued at fair value and recognized as assets and revenue.

Accounts receivable

2.18 Receivables are recognized at their nominal value.

2.19 Provision for doubtful accounts is recognized when there is objective evidence that a receivable is impaired. In particular, a provision is recognized on the basis of historical collection experience. Impairment losses are recognized in the statement of financial performance.

Loans receivable and provision for loan losses

2.20.1 *Loans receivable*

Loans receivable represent loans from borrowers under the Agency's microfinance programme and microcredit community support programme, which offer targeted credit products through a revolving loan fund that serves its operations in all fields. Loans receivable are recognized at their outstanding principal balance.

2.20.2 *Provision for impairment of loans*

Each quarter, the Agency assesses whether a loan asset or group of loan assets is impaired. A group of loan assets is impaired and impairment losses are incurred only if there is objective evidence that there has been impairment as a result of one or more events ("loss events") occurring after the initial recognition of the asset and that the loss event or events have had an impact on the estimated future cash flows of the loan asset or group of loan assets that can be reliably estimated.

If, during the subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the provision account.

2.20.3 *Related-party ("insider") loans*

The Agency provides credit facilities to staff, but not to the Executive Director of the Microfinance Department or to members of the Advisory Board. The loan conditions and interest rates for staff-clients are identical to those for other customers. Such loans are provided for consumption and housing.

2.20.4 *Accrued interest on loans*

Interest income on loans financed is accounted for on the accrual basis.

2.20.5 *Recoveries*

Any recoveries of previously written-off loans are reflected in the statement of financial performance for the period during which they are received.

Financial instruments

2.21 Financial instruments are recognized when UNRWA becomes a party to the contractual provisions of the instrument until such time as the rights to receive cash flows from those assets have expired or have been transferred and UNRWA has transferred substantially all of the risks and rewards of ownership.

2.22 Loans, receivables and payables are non-derivative financial instruments with fixed or determinable payments that are not quoted in active markets. These financial instruments comprise contributions receivable in cash, loans receivable as part of the credit facilities of the Microfinance Department, other receivables and cash in bank accounts and accounts payable. All non-derivative financial instruments are recognized in the statement of financial position at their fair values. The nominal value of receivables and payables approximates the fair value of the transaction.

2.23 The Agency uses derivative financial instruments to hedge exchange risk. Foreign exchange forward contracts are revalued and the revaluation gain or loss is reported in the statement of financial performance if the contracts belong to the current year. For contracts relating to subsequent years, the revaluation gain or loss is reported in the statement of financial position. For revaluation at year-end, the market rate for the forward contract is obtained from the banks and these are compared against the forward rates to ascertain the gain or loss.

Financial risk management

2.24 The activities carried out by UNRWA expose it to various financial risks, primarily the effects of changes in foreign currency exchange rates. Consequently, the Agency's financial risk management policies are focused on the unpredictability of foreign exchange rates and are aimed at minimizing, where feasible, potential adverse effects on the financial performance of UNRWA. Financial risk management is carried out by a central treasury function using UNRWA technical guidelines covering such areas of financial risk as foreign exchange, the use of derivative financial instruments and the investment of excess liquidity.

Advances and prepayments

2.25 Advances and prepayments are recognized at their nominal value.

Inventories

2.26 Inventories are stated at the lower of cost or current replacement cost. The cost of inventories includes purchase cost, or fair value if donated in kind, and all other costs incurred in bringing the inventory into custody. Cost is determined using a weighted average cost formula.

2.27 Current replacement cost, which is used so that inventories can be distributed to beneficiaries at no or nominal charge, is the cost that the Agency would incur to acquire the asset on the reporting date.

2.28 Shelter work in progress is recognized as inventory and such inventories expensed in the period in which the shelter is handed over to the refugees.

2.29 A charge for impairment is recorded in the statement of financial performance for the year in which the inventory is determined to be impaired.

Property, plant and equipment

2.30 Property, plant and equipment items are stated at historical cost, less accumulated depreciation and any recognized impairment loss. For donated assets, fair value as at the date of acquisition is utilized as a proxy for historical cost. For property acquired before 1 January 2010, items were recognized at fair value as at that date and depreciated using the straight-line method over their estimated remaining useful lives.

2.31 Property, plant and equipment are capitalized in the financial statements if their cost exceeds a nominal value.

2.32 Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits or service potential associated with the item will flow to the Agency and the cost of the item can be measured reliably. All repairs and maintenance are charged to the statement of financial performance for the financial period during which they are incurred.

2.33 Depreciation is charged so as to allocate the cost of assets over their estimated useful lives using the straight-line method. The depreciation rates are as follows and are subject to annual review (property acquired before 2010 was fair valued and is depreciated using the straight-line method up to 60 years and not subject to the rates below):

(Percentage)

Asset type	*Depreciation rate*
Buildings and land improvements	
Buildings and land improvements	4
Prefabricated buildings	10
Short-life land improvements	14
Leasehold improvement	20
Vehicles	
Heavy trucks	5
Sedans, light buses and light trucks/or buses	10
Other vehicles	14
Equipment	
Long-life information and communications technology (ICT) equipment, medical equipment and technical vocational training equipment	14
General machinery and equipment, office equipment, medium-life ICT equipment and teaching and school equipment	20
Short-life ICT equipment, computers and printers	33
Microfinance Department office equipment	10
Lease equipment	Shorter of lease term or useful life
Furniture and fixtures	
Fixtures	14
Furniture	10–20

Capital work in progress

2.34 All capital expenses incurred on construction are accumulated in a separate account within property, plant and equipment. Upon the completion of construction, the accumulated cost is transferred to a property, plant and equipment account and depreciated on the basis of the aforementioned rates as at the date on which the completed asset is placed in service.

Intangible assets

2.35 Intangible assets are carried at historical cost, less accumulated amortization and any recognized impairment loss. For donated intangible assets, fair value as at the date of acquisition is used as a proxy for historical cost. Intangible assets are capitalized in the financial statements if their cost exceeds a nominal value.

2.36 Amortization is provided on a straight-line basis on all intangible assets of finite life, at rates that will allocate the cost or value of the assets to their estimated residual values. The estimated useful lives of classes of intangible assets are as follows and are subject to annual review:

Asset class	*Useful life (years)*
Software acquired externally	3
Software developed internally	6
Licences and rights	2
Copyrights	3

2.37 Intangible asset recognition requires the meeting of strict criteria with regard to being identifiable, being under the Agency's control and contributing future economic benefits or service potential that can be reliably measured. Remaining useful life is also a consideration. Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is expensed as incurred.

Software acquisition and development

2.38 Acquired computer software licences are capitalized on the basis of costs incurred to acquire the specific software and bring it into use. Costs directly associated with the development of software for use by the Agency are capitalized as an intangible asset. Development activities include a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if the development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and UNRWA intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalized includes the costs of materials and direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognized in the statement of financial performance as incurred: capitalized development expenditure is measured at cost, less accumulated amortization and accumulated impairment losses.

Impairment

2.39 Assets that are subject to depreciation or amortization are reviewed annually for impairment to ensure that the carrying amount is still considered to be recoverable. Impairment occurs through complete loss, major damage or obsolescence. In the case of a complete loss, full impairment is recorded. This impairment loss can be reversed in subsequent periods, subject to a maximum of the impairment loss recognized.

Finance leases

2.40 Leases of tangible assets, for which the Agency has substantially all the risks and rewards of ownership, are classified as finance leases.

Operating leases

2.41 Leases where the lessor retains a significant portion of the risks and rewards inherent to ownership are classified as operating leases. Payments due under operating leases are charged to the statement of financial performance as an expense.

Payables and accruals

2.42 Payables and accruals represent present obligations of the Agency arising from past events.

Employee benefits

2.43 The Agency recognizes the following categories of employee benefits:

- Short-term employee benefits that fall due wholly within 12 months after the end of the accounting period in which employees render the related service
- Post-employment benefits
- Other long-term employee benefits

- Termination benefits

2.44 UNRWA is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified in article 3 (b) of the Regulations of the Fund, membership in the Fund shall be open to the specialized agencies and to any other international intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

2.45 The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the United Nations Joint Staff Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNRWA and the United Nations Joint Staff Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the Agency's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements set out in IPSAS 39: Employee benefits. The Agency's contributions to the Fund during the financial period are recognized as expenses in the statement of financial performance.

2.46 All area staff members participate in the Area Staff Provident Fund, which is accounted for as a defined contribution retirement plan in accordance with IPSAS 39.

2.47 In 2017, UNRWA early adopted IPSAS 39: Employee benefits, which is applicable to annual financial statements covering periods beginning on or after 1 January 2018 and supersedes IPSAS 25. UNRWA applies IPSAS 39 as per notes 14 and 15 to the financial statements. There is no impact from the early adoption of IPSAS 39 within the financial statements and minimal change to the notes disclosure.

Provisions and contingent liabilities

2.48 Provisions are made for future liabilities and charges where UNRWA has a present legal or constructive obligation as a result of past events, it is probable that it will be required to settle the obligation, and the amount can be reasonably estimated.

2.49 Other material commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of UNRWA.

Interest revenue

2.50 Interest revenue is recognized over the period during which it is earned.

Indirect support cost recovery

2.51 The Agency is entitled to a specific percentage of the expenditure incurred on certain projects according to agreements with donors. Indirect support cost recoveries are recognized as income and represent recoveries of overhead costs incurred by the Agency to implement the related projects.

Fund accounting and segment reporting

2.52 A fund is a self-balancing accounting entity established to account for the transactions of a specified purpose or objective. Funds are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the aggregated position of all UNRWA funds. Fund balances represent the accumulated residual of revenue and expenses.

2.53 A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objectives and for making decisions about the future allocation of resources. UNRWA classifies all projects, operations and fund activities into five segments:

- Unearmarked activities — comprising activities under the programme budget;
- Earmarked activities, which include:
  - Restricted activities: a series of recurring activities aimed at bringing about clearly specified objectives within a defined time period and a defined budget. This applies to activities related to both cash and in-kind contributions for the regular budget;
  - Emergency appeals: activities under an external funding request to respond to a rapid crisis or a protracted humanitarian crisis with emergency operations;
  - Projects: used to meet capital expenditure or development needs to improve or supplement existing programmes and systems;
  - Microfinance: used to provide credit for enterprise activities, household consumption and housing needs that will improve the quality of life of householders and small-business owners and will help sustain jobs, reduce poverty, empower women and provide income-generating opportunities for Palestine refugees.

Adoption of new accounting standards

2.54 The Agency has adopted IPSAS 34 to 38, with effect from 1 January 2017. These standards replace IPSAS 6 to 8 and deal with separate and consolidated financial statements (IPSAS 34 and 35, respectively), as well as accounting for investments in associates and joint ventures (IPSAS 36), joint arrangements (IPSAS 37) and disclosure of interests in other entities (IPSAS 38). There was no impact noted from the adoption of the new standards.

Note 3
Budget comparison

3.1 The budget for the biennium 2016–2017 was submitted to the General Assembly. After consideration by the Assembly, the allocation and the appropriations were carried out by exercising the delegated authority.

3.2 The biennial budget is prepared on the modified cash basis and the statement of financial performance is prepared on the accrual basis. Owing to the different bases used for the preparation of budgets and financial statements, statement V, which provides a comparison of budget and actual amounts, is prepared on the same basis of accounting, classification and period as the approved budget, as required under IPSAS 24: Presentation of budget information in financial statements.

3.3 The comparison statement includes the original and final budget amounts, the actual amounts on the same basis as the corresponding budgetary amounts and an explanation of material differences between the budget and actual amounts.

3.4 Note 34 provides a reconciliation of actual amounts presented on the same basis as the budget with the actual amounts of net cash flows from operating activities, investing activities and financing activities presented in the financial statements, identifying separately any basis, timing and entity differences.

Note 4
Cash and cash equivalents

4.1 Cash is held principally in United States dollar bank accounts. The composition of cash is as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Cash in hand	8 280	7 435
Cash at banks	263 143	259 790
Total	**271 423**	**267 225**

4.2 The Agency held funds for other United Nations entities in the amount of $0.003 million as at 31 December 2017 (compared with nil as at 31 December 2016).

4.3 The balances of cash and cash equivalents at banks as at 31 December 2017 were held in the currencies shown in the table below. Currency values have been converted at the United Nations official rates of exchange as at 1 January 2018.

	Balance as at 31 December 2017			*Balance as at 31 December 2016*		
Currency	*Currency amount (thousands)*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*	*Currency amount (thousands)*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*
Australian dollar	–	1.283	–	20	1.389	14
Canadian dollar	163	1.260	130	153	1.354	113
Swiss franc	259	0.978	265	4 169	1.025	4 067
Danish krone	23	6.232	4	25 456	7.103	3 584
Egyptian pound	11	17.810	1	89	18.068	5
Euro	2 893	0.837	3 456	55 287	0.956	57 832
Pound sterling	315	0.743	424	222	0.817	272
Jordanian dinar	9 665	0.708	13 651	21 509	0.708	30 380
Yen	1 853	112.920	16	362	116.68	3
Lebanese pound	4 260 906	1 513.500	2 815	6 600 962	1 513.5	4 361
New Israeli sheqel	11 254	3.473	3 240	4 514	3.846	1 174
Norwegian krone	6	8.254	1	10 217	8.672	1 178
Swedish krona	232	8.238	28	220	9.124	24

	Balance as at 31 December 2017			Balance as at 31 December 2016		
Currency	*Currency amount (thousands)*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*	*Currency amount (thousands)*	*United Nations official rate of exchange*	*United States dollar amount (thousands)*
Syrian pound	115 121	434.000	265	85 587	514.85	166
United States dollar	238 847	1	238 847	156 617	1	156 617
Total			**263 143**			**259 790**

Note 5
Loans receivable

5.1 Loans receivable include loans outstanding from funds disbursed from the Microfinance Department and the microcredit community support programme both through an initial donor contribution (first-time loans) and from revolving loan funds. The Microfinance Department operates as a separate department within UNRWA. The microcredit community support programme is a subprogramme of the Social Services Division of the Relief and Social Services Department of UNRWA.

5.2 The composition of loans receivable, net of provision for bad debts by maturity, is as follows:

(Thousands of United States dollars)

	31 December 2017			31 December 2016		
	Microfinance Department	*Microcredit community support programme*	*Total*	*Microfinance Department*	*Microcredit community support programme*	*Total*
Current	24 312	1 366	25 678	23 707	1 366	25 073
Non-current	3 139	1 358	4 497	2 886	1 102	3 988
Total	**27 451**	**2 724**	**30 175**	**26 593**	**2 468**	**29 061**

Provision for loans receivable

5.3 The change in the provision for doubtful loans receivable is as follows:

(Thousands of United States dollars)

	2017			2016		
	Microfinance Department	*Microcredit community support programme*	*Total*	*Microfinance Department*	*Microcredit community support programme*	*Total*
Beginning balance as at	(1 452)	(9)	**(1 461)**	(1 419)	2	**(1 417)**
Additions	(1 265)	(38)	(1 303)	(946)	(24)	(970)
Less: write-off	957	4	**961**	913	13	**926**
Ending balance	**(1 760)**	**(43)**	**(1 803)**	**(1 452)**	**(9)**	**(1 461)**

Provision for loan losses

5.4 For the microcredit community support programme, the provision for doubtful loans is equal to 3 per cent of the outstanding amount of the loan portfolio, excluding loans to UNRWA staff, for which no provision is made.

5.5 For the Microfinance Department, the provision for doubtful loans is based on an "aged portfolio at-risk report", which is applied to the total amount outstanding of each loan. On the basis of empirical experience, historical record and market knowledge, it was determined that the following general provision is required for delinquent and defaulting Microfinance Department loans:

Loan status	*Provision*
Current	1% general provision
1–30 days overdue	5% general provision
31–60 days overdue	10% general provision
61–90 days overdue	25% general provision
91–120 days overdue	50% general provision
121–180 days overdue	75% general provision
181–360 days overdue	100% general provision

5.6 Effective September 2012, a special impairment on outstanding Microfinance Department loans was adopted in the Syrian Arab Republic to mitigate the risk posed by the situation of armed conflict. The rates of reserve calculation are set out below for the special impairment at year-end 2015 and 2016:

Loan status	*Provision*
1–30 days overdue	95% special impairment
31–60 days overdue	90% special impairment
61–90 days overdue	75% special impairment
91–120 days overdue	50% special impairment
121–180 days overdue	25% special impairment
181–360 days overdue	0% special impairment

5.7 Based upon the above percentages, if a loan is not serviced, an increasing reserve should be provided for. This provision will be shown in the statement of financial performance for the period. On a monthly basis, an adjustment is made to reflect the changes in the general provision. When a loan is in arrears for 360 days or more, there exists objective evidence of an impairment loss and the loan has been fully provisioned in the general provision, it will be written off. Criteria used to determine that there is objective evidence of an impairment loss may include: indications that the borrower or a group of borrowers is experiencing significant financial difficulty; default or delinquency in payments of interest or principal; breach of loan covenants or conditions; deterioration in the value of collateral; the probability exists that they will enter bankruptcy or other financial reorganization; and observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Recovery of written-off loans will continue to be pursued through the collection and compliance section of the Department.

Note 6
Contributions receivable

6.1 Contributions receivable represents confirmed and signed agreements outstanding from donors that are due within 12 months. The following is a breakdown of contributions receivable balances by donor category at the end of the year:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Due from Governments	24 516	26 685
Due from intergovernmental organizations	16 815	9 035
Due from non-governmental organizations	12 581	12 988
Due from United Nations organizations	1 637	5 654
Due from private individual donors	67	136
Provision against contributions receivable	(14 672)	(3 236)
Total contributions receivable	**40 944**	**51 262**

6.2 There are no non-current receivables due after 12 months from 31 December 2017.

6.3 Contributions receivable relate to donor contributions for each of the five identified segments. Donor contributions may include restrictions that require UNRWA to use the contribution for a specific project, activity or country within a specified time period.

6.4 Contributions receivable are shown net of provision for estimated reductions in contribution revenue and doubtful accounts.

6.5 The change in the provision for doubtful contributions receivable is as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Beginning balance	(3 236)	(5 133)
Reduction in provision/adjustment	1 395	3 816
Addition during the period	(12 832)	(1 920)
Less: write-offs	1	–
Ending balance	**(14 672)**	**(3 236)**

6.6 The provision for doubtful contributions receivable is estimated at the following percentages of outstanding contributions receivable:

(Percentage)

Governments	Less than 2 years	0
	From 2 years to less than 3 years	50
	3 years or more	100

6.7 After six years, the doubtful debt and the write-off request, together with the supporting documents, should be submitted to the Director of Finance for approval after all collection efforts have been exhausted. The Commissioner-General has delegated his authority to write off amounts less than $1 million to the Director of Finance. Uncollectable amounts of $1 million or greater must be approved by the Commissioner-General in order to be written off.

Note 7
Accounts receivable

7.1 Accounts receivable are due to be collected within 12 months and comprise the following:

(Thousands of United States dollars)

	Relevant note	*31 December 2017*	*31 December 2016*
Value added tax receivable	7.1.1	111 198	108 441
Other accounts receivable	7.1.2	12 523	12 476
Less: provisions	7.1.3	(100 240)	(97 355)
Accounts receivable net of provisions		**23 481**	**23 562**

Value added tax receivable

7.1.1 Value added tax receivable represents amounts receivable from Governments for value added tax paid by the Agency that is subject to reimbursement. The composition of value added tax receivable by government is as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Value added tax receivable from the Palestinian Authority	100 962	100 628
Value added tax receivable from the Government of Israel	9 608	6 962
Value added tax receivable from the Government of Lebanon	628	851
Total	**111 198**	**108 441**

Other accounts receivable

7.1.2 Other accounts receivable comprise the following:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Miscellaneous receivable	6 919	6 527
Personal accounts of staff members	3 864	5 828
Refundable utility deposits	121	121
Due from Area Staff Provident Fund[a]	1 619	–
Total	**12 523**	**12 476**

[a] See note 14A.1.

7.1.3 *Provisions and write-offs*

(Thousands of United States dollars)

	31 December 2017				*31 December 2016*			
	Value added tax	*Accounts receivable*	*Microfinance Department*	*Total*	*Value added tax*	*Accounts receivable*	*Microfinance Department*	*Total*
Beginning balance	(96 436)	(854)	(66)	**(97 355)**	(82 490)	(839)	(57)	**(83 386)**
Additions	(2 868)	(1)	(18)	**(2 887)**	(13 945)	(15)	(9)	**(13 969)**
Less: write-offs	–	3	–	**3**	–	–	–	–
Ending balance	**(99 304)**	**(852)**	**(84)**	**(100 239)**	**(96 436)**	**(854)**	**(66)**	**(97 355)**

7.2 The provisions for value added tax receivable and accounts receivable are estimated amounts based on the aged analysis of the outstanding amounts as at the reporting date. These provisions have been calculated on the basis of past experience and the likelihood of collecting the outstanding amounts over the specific periods, as shown below.

(Percentage)

Value added tax receivable	Less than 2 years	0
	From 2 years to less than 3 years	50
	3 years or more	100
Other receivable	1 year or more	100

7.3 After six years for value added tax receivable and three years for other receivables, the doubtful debt and the write-off request, together with the supporting documents, may be submitted to the Director of Finance for approval after all collection efforts have been exhausted. In some instances, collection efforts continue after the time periods specified above have elapsed.

7.4 The 2017 additions for accounts receivable provisions (see note 7.1.3) reflect a net increase of $2.887 million.

Note 8
Other assets

8.1 Included in other assets are prepaid expenses and advances to suppliers. Prepaid expenses and advances to suppliers totalled $8.770 million as at 31 December 2017 and $3.092 million as at 31 December 2016. Included therein are prepayments to staff in the amount of $0.96 million as at 31 December 2017 and $0.142 million as at 31 December 2016.

8.2 The composition of prepaid expenses and advances to suppliers as at 31 December 2017 is shown below. The full amount of non-current assets represents advances to suppliers.

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current		
Advances to supplier	8 543	2 808
Prepayment to staff	131	142
Total current	**8 674**	**2 950**
Non-current		
Advances to supplier	96	142
Total	**8 770**	**3 092**

Note 9
Inventories

9.1 Inventories consist of the following:

(Thousands of United States dollars)

Type	*31 December 2017*	*31 December 2016*
Warehouse	39 638	37 276
Pharmacy/clinic	17 445	17 375
In transit	10 791	370
Production unit	168	113
Shelter under construction	9 526	10 653
Non-Agency installations	10 891	10 973
Total	**88 459**	**76 760**

9.2 Warehouse inventory comprises four main categories of items that are distributed to refugees or used to provide services to refugees: medical supplies, general supplies, food and motor transport.

9.3 Inventory in transit are materials for which significant risks and rewards are transferred to UNRWA and are yet to be received at the warehouse. With the introduction of the new enterprise resource planning system, such goods are tracked and recorded in the virtual warehouses. The goods which are received and recorded in the virtual warehouses are recorded as inventories. Materials for which goods receipt notes were not recorded are shown as inventory in transit.

9.4 Pharmacy/clinic inventory represents medical supplies distributed from the warehouse and held in the respective pharmacies and clinics for the five fields.

9.5 Production unit inventory relates to the Agency's self-supporting production unit, which is the embroidery centre located in the Gaza Strip. This unit is governed by separate instructions for effective management control and performance assessment. Inventories of the production unit are reported at cost, under assets in the financial statements.

9.6 The components of the production unit inventory are as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Raw materials inventory — embroidery	66	49
Work in progress — embroidery	2	
Finished goods — embroidery	100	61
Total	**168**	**113**

9.7 Inventory adjustment in the amount of $0.210 million was recorded in 2017 (impairment expense of $0.100 million in 2016).

9.8 In accordance with IPSAS 12, inventory has been adjusted to reflect the net realizable value based on current replacement cost. An amount of $2.157 million has been included in the cost of supplies and consumables (compared with an amount of $1.983 million in 2016) and disclosed in note 28 accordingly.

Note 10
Derivative financial instruments

Nature of financial instruments

10.1 Details of the significant accounting policies and methods adopted, including the criteria for recognition and derecognition, the basis of measurement and the basis on which gains and losses are recognized in respect of each class of financial asset and financial liability, are set out in note 2.

10.2 The financial instruments of UNRWA comprise contributions receivable in cash, loans receivable as part of the Microfinance Department credit facilities, other receivables, cash in bank accounts, financial derivative forward contracts and accounts payable.

Financial derivatives

10.3.1 All the outstanding financial derivative forward contracts were revalued as at 31 December 2017; the impact on financial position and on financial performance is summarized below.

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Realized gain	4 689	10 747
Realized (loss)	(4 619)	(1 913)
Total realized gain	**70**	**8 834**
Unrealized gain/asset	–	56
Unrealized loss/(liability)	–	(7)

10.3.2 All outstanding contracts as at 31 December 2017 were matured during financial year 2017. UNRWA entered into several forward contracts during 2017, all of which were matured in the same year, resulting in a net realized gain of $0.070 million, classified as financial derivatives gain under other revenues in the statement of financial performance.

10.3.3 The Agency entered into various forward contracts in 2017. All contracts were matured during the year. No outstanding contracts were revalued as assets or liabilities as at 31 December 2017.

Credit risk

10.4 The Agency has limited credit risk because its donors are generally of a high credit standing. Contributions receivable comprise primarily amounts due from sovereign nations. Details of contributions receivable, including provision for reductions in contribution revenue, are provided in note 6.

10.5 The greatest area of credit risk arises from loans provided by the Microfinance Department. The Department manages credit risk by:

- Establishing ceilings on amounts of direct credit for each product linked to the cash flow of each client
- Providing a range of products to different sectors and segments to spread credit and reduce concentration
- Formulating credit policies by product covering collateral requirements and credit compliance with regulatory requirements in each jurisdiction
- Establishing the authorization structure for the approval and renewal of credit facilities
- Reviewing and assessing credit risk in excess of designated limits prior to facilities being committed to customers. Renewals of facilities are subject to the same process
- Developing and maintaining a risk-grading system in order to categorize exposure according to when impairment provisions are required against specific credit exposures
- Providing guidance and training to improve skills of staff in order to promote best practice in the management of credit risk

10.6 The Agency has its cash deposited with various banks and is therefore exposed to the risk that a bank will default in its obligation towards it. However, UNRWA holds all significant cash deposits in international banks with a high credit rating.

10.7 There is no perceived risk that other receivables may not be liquidated when they fall due.

Interest rate risk

10.8 The Agency deposits its funds in short-term fixed interest accounts and therefore has no significant interest rate risk exposure.

Foreign currency risk

10.9 The Agency receives contributions from donors in currencies other than the primary currency of the expenditures, United States dollars. In 2017, 34 per cent of contributions to the programme budget were denominated in the United States dollar base currency and 66 per cent were denominated in other currencies. The Microfinance Department lends in different currencies, according to the Agency's fields of operation, with the United States dollar used in the Gaza Strip, the Jordanian dinar used in Jordan and the West Bank and the Syrian pound used in the Syrian Arab Republic.

10.10 Furthermore, some field office expenditures are incurred in non-United States dollar currencies. The Agency is therefore exposed to foreign currency exchange risk arising from fluctuations of currency exchange rates. Foreign exchange forward contracts are used to hedge the non-United States dollar exchange exposure for donor contributions.

10.11 To protect its assets and cash flow against adverse currency movements, UNRWA adopts a conservative risk management approach, hedging to minimize its exposure to exchange rate fluctuations. In order to hedge the currency risk, UNRWA enters into forward contracts to remove the risk of an appreciation of the United States dollar and to provide a known, fixed income amount. UNRWA also enters into forward contracts to hedge the risk of fluctuation in currency adjustment factor expense for area staff in the West Bank and the Gaza Strip.

10.12 As at 31 December 2017, 86 per cent of cash held in banks was denominated in the United States dollar base currency and the remainder in other currencies. Twenty-eight per cent of UNRWA field office balances were denominated in local currencies to support operating activities, and the remaining cash at banks was held in other currencies. A full breakdown of cash held at banks in currencies other than the United States dollar is provided in note 4.

Note 11
Property, plant and equipment

11.1.1 The table below presents a summary of property, plant and equipment as at 31 December 2017.

(Thousands of United States dollars)

	2017									2016
Description	*Land*	*Buildings*	*Leasehold improvements*	*Furniture and fittings*	*Equipment*	*Motor vehicles*	*Construction in progress*	*Assets not placed in service*	*Total*	*Total*
Cost										
As at 1 January	16 250	521 117	611	1 922	45 762	44 371	37 626	21	667 678	618 508
+ Additions in year	–	43 131	78	850	7 517	895	(15 172)	206	37 505	56 323
(-) Disposals/adjustment in year[a]	–	85	13	3	1 829	1 792	–	–	3 721	7 151
(A) Balance as at 31 December	**16 250**	**564 163**	**676**	**2 769**	**51 450**	**43 473**	**22 454**	**227**	**701 462**	**667 678**
Depreciation										
Balance as at 1 January	–	114 428	556	406	31 874	24 035	–	–	171 299	150 565
+ Depreciation in year	–	20 608	61	305	4 661	2 926	–	–	28 561	25 682
(-) Depreciation on disposals/adjustments in year[a]	–	1	13	2	1 654	1 682	–	–	3 353	4 948
(B) Balance as at 31 December	–	**135 035**	**604**	**709**	**34 881**	**25 278**	–	–	**196 507**	**171 299**
Impairment										
Balance as at 1 January	–	3 562	–	–	1	85	–	–	3 648	3 165
+ Impairment in year	–	728	–	–	–	–	–	–	728	651
(-) Impairment reversed and on disposal in year	–	–	–	–	–	78	–	–	78	168
(C) Balance as at 31 December	–	**4 290**	–	–	**1**	**7**	–	–	**4 298**	**3 648**
Net book value as at 31 December (A)–(B)–(C)	**16 250**	**424 838**	**72**	**2 060**	**16 568**	**18 188**	**22 454**	**227**	**500 657**	**492 732**

[a] See note 11.1.2.

11.1.2 Net cost of disposal is $0.290 million, which comprises the following:

(Thousands of United States dollars)

	2017	*2016*
Original cost of disposal	3 721	7 151
Accumulated depreciation	(3 353)	(4 948)
Accumulated impairment	(78)	(16)
Cost of disposal as per note 11.1.1	**290**	**2 187**

The proceeds from the sale of assets and the gain and loss on the class of assets is as below:

(Thousands of United States dollars)

	2017	*2016*
Loss on disposal	289	2 181
Gain on disposal	(28)	(37)
Proceeds from sale of assets	29	43
Net disposal/adjustments as per note 11.1.1	**290**	**2 187**

11.2 In addition to the active assets valued at $500.657 million, the Agency continues to utilize fully depreciated assets with a gross carrying value of $39.839 million. Equipment includes a finance lease amounting to $1.145 million added during the year.

Note 12
Intangible assets

Intangible assets are summarized as follows:

(Thousands of United States dollars)

	2017						*2016*
Description	*Software acquired separately*	*Software developed internally*	*Licences and rights*	*Copy-rights*	*Work in progress*	*Total*	*Total*
Cost							
As at 1 January	3 362	38 243	–	–	182	41 786	41 772
+ Additions in 2017	–	35	528	–	(182)	381	24
(-)/+ Disposals and adjustments in year	–	–	–	–	–	–	(9)
(A) Balance as at 31 December	**3 362**	**38 278**	**528**	**–**	**–**	**42 167**	**41 786**
Amortization and impairment							
Balance as at 1 January	1 802	10 845	–	–	–	12 647	5 245
Amortization in year	1 006	6 374	65	–	–	7 445	7 411

	2017						*2016*
Description	*Software acquired separately*	*Software developed internally*	*Licences and rights*	*Copy-rights*	*Work in progress*	*Total*	*Total*
(-)/+ Amortization on disposals and adjustments in year	–	–	–	–	–	–	(9)
(B) Balance as at 31 December	**2 808**	**17 219**	**65**	–	–	**20 092**	**12 647**
Net book value as at 31 December (A)–(B)	**554**	**21 059**	**463**	–	–	**22 075**	**29 139**

Note 13
Accounts payable and accruals

13.1 Accounts payable consist of the following:

(Thousands of United States dollars)

	Reference	*31 December 2017*	*31 December 2016*
Supplier accounts payable	Note 13.1.1	45 880	33 226
Accrued expenses	Note 13.1.2	27 914	29 407
Other accounts payable	Note 13.1.3	34 260	5 919
Miscellaneous provision	Note 13.1.4	2 128	1 419
Due to Area Staff Provident Fund	Note 14A.1	–	267
Total		**110 182**	**70 238**

Supplier accounts payable

13.1.1 Supplier accounts payable represent outstanding amounts payable to vendors for goods and services received.

Accrued expenses

13.1.2 Accrued expenses include the following:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Accrued expenses for services and utilities	18 459	25 397
Area staff group medical insurance	1 797	1 702
Accrued salaries, wages and other expenses	181	152
Other salary-related payable	5 703	1 510
Payable — reclassifications of accounts receivable balance staff	1 774	646
Total	**27 914**	**29 407**

Other accounts payable

13.1.3 Other accounts payable consist of the following:

(Thousands of United States dollars)

	31 December 2017	31 December 2016
Deposits received	228	109
West Bank water supply, Palestinian Authority	311	242
Funds held for other United Nations entities	3	–
Interest payable for projects	1 721	1 309
Miscellaneous accounts payable	1 953	1 738
Central Emergency Response Fund	20 000	–
Staff liabilities payable	9 493	2 490
Unearned income canteen rent	551	31
Total	**34 260**	**5 919**

Miscellaneous provision

13.1.4 Miscellaneous provision includes provision for the Agency to meet various contingent liabilities that are likely to materialize, including in relation to pending arbitral proceedings.

Note 14
Employee pension fund

UNRWA Area Staff Provident Fund

14.1 The UNRWA Area Staff Provident Fund, established under article XIII of the Agency's Financial Regulations, is a retirement benefit plan that applies to all area staff members and vests after six months of service. UNRWA has treated this plan as if it were a defined contribution plan in accordance with the requirements of IPSAS 25. The Agency's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance. The balances outstanding with the Provident Fund as at 31 December 2017 and as at 31 December 2016 are shown below.

(Thousands of United States dollars)

	31 December 2017	31 December 2016
Opening balance	267	(2 348)
Employee contributions and repayments of withdrawals	58 463	52 672
Agency contributions	62 192	57 449
Withdrawals	(83 737)	(66 905)
Area Staff Provident Fund employee loans	(38 025)	(39 072)
Area Staff Provident Fund loan commission	158	156
Current account with Provident Fund	(937)	(1 685)
Total	**(1 619)**	**267**

United Nations Joint Staff Pension Fund: international staff

14.2 The Regulations of the United Nations Joint Staff Pension Fund state that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the Consulting Actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

14.3 The Agency's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Fund. Such deficiency payments are payable only if and when the Assembly has invoked the provisions of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions which each paid during the three years preceding the valuation date.

14.4 During 2017, the Fund identified anomalies in the census data utilized in the actuarial valuation performed as at 31 December 2015. Accordingly, as an exception to the normal biennial cycle, a roll-forward of the participation data as at 31 December 2013 to 31 December 2016 was used by the Fund for its 2016 financial statements. An actuarial valuation as at 31 December 2017 is currently being performed.

14.5 The roll-forward of the participation data as at 31 December 2013 to 31 December 2016 resulted in a funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, of 150.1 per cent (127.5 per cent in the 2013 valuation). The funded ratio was 101.4 per cent (91.2 per cent in the 2013 valuation) when the current system of pension adjustments was taken into account.

14.6 After assessing the actuarial sufficiency of the Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2016, for deficiency payments under article 26 of the Regulations of the Fund as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provisions of article 26.

14.7 Should article 26 be invoked owing to an actuarial deficiency, either during the ongoing operation or owing to the termination of the Fund pension plan, deficiency payments required from each member organization would be based upon the proportion of that member organization's contributions to the total contributions paid to the Fund during the three years preceding the valuation date. Total contributions paid to the Fund during the preceding three years (2014, 2015 and 2016) amounted to $6,750.98 million.

14.8 During 2017, UNRWA contributions paid to the Fund amounted to $8.013 million (compared with $8.000 million in 2016). Expected contributions due in 2018 are approximately $8.030 million.

14.9 Membership of the Fund may be terminated by decision of the General Assembly, upon the affirmative recommendation of the Pension Board. A proportionate share of the total assets of the Fund at the date of termination shall be paid to the former member organization for the exclusive benefit of its staff who were participants in the Fund at that date, pursuant to an arrangement mutually agreed between the organization and the Fund. The amount is determined by the Pension Board on the basis of an actuarial valuation of the assets and liabilities of the Fund on the date of termination; no part of the assets which are in excess of the liabilities is included in the amount.

14.10 The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The United Nations Pension Fund publishes quarterly reports on its investments, which can be viewed by visiting the Fund's website (www.unjspf.org).

Note 15

Staff end-of-service and termination benefits

15.1 The Agency recognizes the following categories of employee benefits:

- Short-term employee benefits due to be settled within 12 months after the end of the accounting period in which employees render the related service
- Post-employment benefits
- Other long-term employee benefits
- Termination benefits

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current	84 094	77 324
Non-current	731 028	668 536
Total	**815 122**	**745 860**

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Annual leave encashment for area staff	43 558	39 191
End-of-service liability for area staff	768 620	703 259
Short-term employee benefits for international staff not funded through the United Nations regular budget	2 290	2 243
Long-term employee benefits for international staff not funded through the United Nations regular budget	654	1 167
Total	**815 122**	**745 860**

Short-term employee benefits for area staff

15.2 Short-term employee benefits consist of the annual leave of area staff. The amount of liability is calculated on the basis of the accumulated leave balances in the human resources module as at 31 December 2017. The total employee annual leave liability as at 31 December 2017 amounted to $43.558 million (compared with $39.191 million at 31 December 2016).

End-of-service liabilities for area staff

15.3 Area staff end-of-service and termination benefit liabilities are determined by professional actuaries or calculated by UNRWA on the basis of personnel data and past payment experience. As at 31 December 2017, total employee benefits liabilities amounted to $768.621 million (compared with $703.259 million as at 31 December 2016). The end-of-service benefits are fully unfunded. However, UNRWA allocates funding each year equivalent to the cash payout for that particular year.

15.4 In accordance with the requirements set out in IPSAS 39, the actuary has used the projected unit credit actuarial method to assess the plan's liabilities. Under this method a "projected accrued benefit" is calculated for each benefit that will accrue for all active members of the plan. The projected accrued benefit is based on the plan's accrual formula and on the service period as at the valuation date but using a member's final compensation projected to the age at which it is assumed that the employee will leave active service. The plan liability is the actuarial present value of the projected accrued benefits as at the valuation date for all active employees.

Normal and early retirement benefit

15.5 In the case of normal and early retirement, area staff are paid end-of-service benefits in accordance with rule 109.2 of the UNRWA Area Staff Rules. The criteria and assumptions used in calculating normal and early retirement benefits according to the actuarial method under IPSAS include the following: (a) all area staff employees, including part-time staff but excluding employees on limited duration contracts, are eligible, and the normal retirement age is considered to be from 60 to 62 years, plus a minimum service period of 10 years; (b) the normal retirement age is 60 if the date of hire is prior to 1 January 2014 and 62 if the date of hire was on or after 1 January 2014; the terms of the benefit are attainment of retirement age plus a minimum service period of 10 years; (c) at the age of 60, the staff member has the option to extend his or her retirement age to 62 — in this context, it is assumed that 25 per cent of the staff opt for immediate retirement upon attaining the age of 60; (d) the amount payable is calculated on the basis of the formula of base salary times 11 per cent times number of completed years of service before 1 January 2015 plus base salary times 12 per cent times number of completed years of service after 1 January 2015; (e) the service period is prorated until the last completed month of service; (f) the base salary is the basic matrix salary without allowances, whereas in Jordan, Lebanon and the Syrian Arab Republic, the basic matrix salary is adjusted for the fluctuation of the local currency against the United States dollar, and in the West Bank, the basic matrix salary is adjusted for the fluctuation of the Jordanian dinar against the United States dollar; and (g) for health staff, the qualifying salary for the service period up to 31 December 2016 is the qualifying salary of 31 December 2016 and is frozen at that date.

15.6 The benefit referred to above is also payable in the case of early voluntary retirement. The conditions for early voluntary retirement are as follows: (a) attainment of the age of 50 to 59, with 10 years of service or more; (b) attainment of the age of 60 with 10 years of service or more for staff members whose service has been extended beyond the official age of retirement at the staff member's request; (c) a service period of 25 years or more; (d) attainment of the age of 45 to 49, with a service period of 10 years or more; and (e) 20 to 24 years of service. The aforementioned eligibility criteria for early retirement are listed in descending order and are subject to an annual budget set by the Agency.

Termination in the interests of the Agency

15.7 Area staff are paid end-of-service benefits in accordance with rule 109.9 of the UNRWA Area Staff Rules if the termination is as stipulated in rule 109.1 of the Staff Rules and is in the interests of the Agency as reflected in the following criteria: (a) the service period must be equal to or greater than one year; (b) the employee is paid under either of the following two schemes, with the benefit amount and the application terms varying by years of qualified service and attained age:

Years of qualifying service	*Months of base salary*
0	0
1	1
2	1
3	2
4	3
5	4
6	5
7	6
8	7
9 or more	8

Age	*Months of base salary*
46	8.25
47	8.50
48	8.75
49	9.00
50	9.25
51	9.50
52	9.75
53	10.00
54	10.25
55	10.50

(c) the benefit is not paid if separation from service is initiated by the employee (e.g. through resignation); (d) the service period is prorated until the last completed month of service; and (e) the base salary is the basic matrix salary without allowances. However, in Jordan and Lebanon, the basic matrix salary is adjusted for the fluctuation of the local currency against the United States dollar. In the West Bank, the basic matrix salary is adjusted for the fluctuation of the Jordanian dinar against the United States dollar.

Death benefits

15.8 Death benefits for area staff are paid in accordance with rule 109.8 of the UNRWA Area Staff Rules. In the event of separation as a result of the death of an area staff member, the Agency shall pay a death benefit to the staff member's nominated beneficiary or beneficiaries. The death benefit shall be computed either: (a) as 11 per cent of the deceased staff member's ending annual salary and cost-of-living allowance (positive or negative) for each year of qualifying service before 1 January 2015 and 12 per cent for each year of qualifying service after 1 January 2015, plus a supplemental benefit representing 50 per cent of ending annual salary and cost-of-living allowance (positive or negative); or (b) as 200 per cent of ending annual salary and cost-of-living allowance (positive or negative), whichever is greater.

Disability benefits

15.9 Area staff are paid in accordance with UNRWA Area staff rule 109.7 if terminated on the stated ground that they are, for reasons of health, incapacitated insofar as further service with the Agency. In the event of the disability of a staff member on or after 1 September 1987 and subject to paragraphs 3 to 6 of the above-mentioned rule, a disability benefit is computed either: (a) as 11 per cent of ending annual salary and cost-of-living allowance (positive or negative) for each year of qualifying service before 1 January 2015 and 12 per cent for each year of qualifying service after 1 January 2015; or (b) as 200 per cent of ending annual salary and cost-of-living allowance (positive or negative), whichever is greater.

Reconciliation of end-of-service benefits

15.10 The interest costs and service costs incurred during the year have been directly accounted for in the statement of financial performance. The amount of interest costs, service costs and past service costs accounted for is shown in the table below.

15.11 The amount of actuarial (losses) presented in the statement of changes in net assets/equity is ($30.121 million), which includes the discount rate change during the year.

15.12 Interest costs and service costs amounted to $75.387 million as at 31 December 2017 (compared with $72,067 million for 2016). The actuarial (gains) losses are directly accounted for in the statement of changes in net assets/equity in accordance with IPSAS 39. In the 2017 valuation of end-of-service liabilities, the actuaries determined actuarial gains to be $9.089 million and actuarial losses to be $39.209 million due to discount rate change during the year. Accordingly, in the cash flow statement the net actuarial loss of $30.121 million was deducted rather than being added because it was directly accounted for in the statement of changes in net assets/equity.

15.13 The valuation of the end-of-service benefit for local staff as at 31 December 2017 on the same assumptions (demographic and financial) used in the previous year's valuation, as at 31 December 2016, resulted in an actuarial gain of $9.088 million. This gain is largely driven by the fact that there has been no change to salary matrices in 2017; hence, salary escalation in 2017 was lower than expected. The reconciliation of the opening and closing balance of the area staff end-of-service benefits is given below:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Opening balance as at 1 January	703 259	650 035
Interest costs for the year	28 371	28 389
Service costs for the year	47 016	43 678
Past service costs[a]	(1 505)	–
Financial remeasurements[b]	39 209	23 500

	31 December 2017	*31 December 2016*
Payments in the year	(38 641)	(23 885)
Actuarial (gains)	(9 089)	(18 458)
Total	**768 620**	**703 259**

[a] Past service costs for the year 2017 include the impact of changes in the health staff pay structure and grade.

[b] The discount rate (financial remeasurements) change from 4.0 per cent to 3.51 per cent is included in the actuarial gains (loss) in the statement of changes in net assets/equity. For 2016 the discount rate changed from 4.32 per cent to 4.00 per cent.

Key assumptions

15.14 The discount rate (financial remeasurements) used was based on the currency and the term of the underlying liabilities. Where the benefit offered by the Agency provided protection for the fluctuation of the local currency against the United States dollar, the benefit was assumed to be in United States dollars and the applicable United States dollar discount rate was used. This has been the case for the Lebanon, West Bank and Jordan field offices and the Amman headquarters.

15.15 The discount rates (financial remeasurements) and future escalation used, by field and currency, are as follows:

(Percentage)

Field	*Currency*	*Currency protection*	*Discount rate*	*Future escalation*
Gaza	United States dollar	No	3.51	2.50
Gaza headquarters	United States dollar	No	3.51	2.50
Jordan	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	3.51	2.50
Amman headquarters	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	3.51	2.50
West Bank	Jordanian dinar	Yes (Jordanian dinar/United States dollar)	3.51	2.50
Lebanon	Lebanese pound	Yes (Lebanese pound/United States dollar)	3.51	2.50
Syrian Arab Republic	United States dollar	No	3.51	2.50

15.16 The discount rates were set with reference to government bonds, high-quality corporate bonds and other instruments, depending on the currency, term and availability of such instruments for the currency under consideration. However, owing to the continuous low interest rate environment, the discount rate has been revised by management from 4.00 per cent to 3.51 per cent, which is consistent with the yields on investment grade corporate United States bonds with term to maturity, consistent with the duration of the end-of-service liability. The discount rate is set on the basis of the Citi Pension Liability Index — Intermediate, which has a duration of 15.67 years, similar to the duration of the end of service liability of the Agency (15.59 years). This index represents a single discount rate that would produce the same present value as calculated by discounting a standardized set of liabilities using Citi Pension Discount Curve. The Citi Pension Discount Curve is a set of yields on hypothetical AA zero coupon bonds whose maturities range from 6 months to 30 years. The yields are used to discount pension liabilities. The Citi Pension Discount Curve is calculated on the basis of a universe of AA rate corporate bonds from the Citi US Broad Investment-Grade Bond Index and the yields of the Citi Treasury model curve. This reduction in the discount rate has resulted in an actuarial loss of

$39.210 million. Hence, the net actuarial loss for the year 2017 is $30.121 million, which represents 4.0 per cent of the opening balance of the provision.

Step increments

15.17 According to the current salary matrices of the Agency, step increments can be either an amount or a percentage. Subject to satisfactory performance, step increments are applied once a year for each employee until the employee reaches the maximum step level, which currently stands at 24.

Exchange rates as at 31 December 2017

15.18 The exchange rates used to convert local currencies to the United States dollar are based on the United Nations exchange rates, as follows: United States dollar, 1.000; Jordanian dinar, 0.708; Lebanese pound, 1,513.50; Syrian pound, 434.000.

Resignation rates

15.19 It is assumed that plan members will resign at the following rates per annum, according to attained age: less than 30 years, 3 per cent; for 30 to 34 years, 2 per cent; for 35 to 39 years, 1.5 per cent; and for 40 years and above, 0 per cent.

Early retirement rates

15.20 It is assumed that plan members will elect for early retirement according to the rates set out below.

(Percentage)

	Number of years since early retirement conditions have been satisfied			
Attained age	*0*	*1*	*2*	*3+*
Less than 45	8.0	5.0	3.0	1.0
45–49	8.0	5.0	3.0	1.0
50–54	8.0	5.0	3.0	1.0
55–59	8.0	5.0	3.0	1.0

15.21 For the field of Jordan and the Amman headquarters, the assumed early retirement rates set out above were multiplied by 150 per cent.

Mortality

15.22 It is assumed that active members of the plan will experience in-service mortality in accordance with the 1996 United States Annuity 2000 mortality table for males and females.

Disability

15.23 It is assumed that disability cases will occur annually according to the probabilities set out below.

Disability rate

(Per thousand)

Age	*Male*	*Female*
Less than 45	0.50	0.75
45–54	1.00	1.50
55–62	1.50	2.25

International staff end-of-service liability

15.24 The separation costs of international staff funded from the regular budget of the United Nations (155 posts as at 31 December 2017 and 155 posts as at 31 December 2016) are borne by the regular budget, and no provision for these costs is made in the Agency's financial statements given that the liability will be borne by the United Nations. As a result, UNRWA has not disclosed after-service health insurance, repatriation grant or leave pay encashment in its financial statements. These liabilities relating to international staff should be included in the financial statements contained in the report of the Board of Auditors on the United Nations.

15.25 As a part of the implementation of IPSAS, UNRWA appointed an actuarial consultant to determine the employee liabilities for international staff members not funded from the United Nations regular budget. The value of liabilities for international staff not funded from the regular budget is summarized below.

(Thousands of United States dollars)

Benefit	*31 December 2017*	*31 December 2016*
Repatriation grant	682	666
Shipment	823	753
Travel	288	272
After-service health insurance	654	1 167
Outstanding annual leave	497	552
Total	**2 944**	**3 410**

Assumptions

15.26 The discount rate is assumed to be 3.51 per cent and future salary escalation is assumed to be 3 per cent. The general inflation considered for travel and shipment costs is 2 per cent. The after-service health insurance premium applied for United States nationality is assumed to increase by 6 per cent per annum and that applied for other nationalities is 4 per cent per annum. It is assumed that plan members will resign at the following rates per annum according to their attained ages: less than 30 years, 3 per cent; 30 to 34 years, 2 per cent; 35 to 39 years, 1.5 per cent; and 40 years and above, 0 per cent. It is assumed that rates of in-service mortality of active members of the plan will reflect those in the 1996 United States Annuity 2000 mortality table for males and females.

15.27 After-service health insurance coverage is optional for eligible former international project staff members and their dependants. The Agency's contribution to the after-service health insurance premium is set at 50 per cent, with the rest paid by the former staff member. Aetna rates were used for international staff members not funded from the United Nations regular budget and holding United States citizenship, while CIGNA Dental Preferred Provider Organization rates were used for other nationalities. It is of note that only three employees are expected to qualify for this benefit on the assumption of no contract extension.

Note 16
Other current liabilities

16.1 Other current liabilities comprise the following:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Goods in transit payable	7 613	537
Donor refund payable	98	142
Finance liability	266	–
Total	**7 977**	**679**

Other non-current liabilities

16.2 Other non-current liabilities comprise the following:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
OPEC Fund for International Development PalFund Trust Fund — Microfinance Department	9 875	9 875
Lease liability	885	–
Total	**10 760**	**9 875**

16.3 The composition of other liabilities is as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Current	7 977	679
Non-current	10 760	9 875
Total	**18 737**	**10 554**

Note 17
Advance contribution

The amount of contributions received in advance of the criteria for revenue recognition being met is as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Received from Governments	96	3 603
Total	**96**	**3 603**

Note 18
Contingent liabilities, contingent assets and lease commitments

Contingent liabilities

18.1 The Agency's contingent liabilities as at 31 December 2017, compiled by the Legal Department, arise broadly from two categories: those in connection with personnel matters in respect of significant claims, litigation or arbitration and those associated with contractual matters. Contractual matters relate mostly to claims pertaining to procurement or purchase orders and construction and claims from proprietors of buildings rented by the Agency.

18.2 A number of personnel appeals which could involve the payment of salary and entitlements or other damages were pending with the UNRWA Dispute Tribunal and the United Nations Appeals Tribunal. The contingent liabilities relating to these appeals amounted to approximately $1.404 million as at 31 December 2017 (compared with $1.263 million as at 31 December 2016).

18.3 The contingent liabilities for commercial contracts amounted to approximately $15.376 million as at 31 December 2017 (compared with $13.188 million as at 31 December 2016).

Contingent assets

18.4 The Agency's contingent assets represent pledges for which donor agreements have been signed but with respect to which the criteria for revenue recognition have not been met. The total amount of contingent assets outstanding as at 31 December 2017 was $661.511 million (compared with $598.834 million as at 31 December 2016).

Operating lease commitments

18.5 Operating costs include lease payments in the amount of $3.682 million recognized as operating lease expenses during 2017 (compared with $3.910 million in 2016). The amount includes minimum lease payments. No contingent rent payments were made.

18.6 The Agency holds principally cancellable operating leases. The operating lease agreements relate mainly to school premises, health centres, land and collective shelters for camps, field administrative offices and warehouse and distribution centres. The total of future minimum lease payments is as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Not later than one year	34	134
Later than one year and not later than five years	225	–
Later than five years	–	–
Total	**259**	**134**

18.7 Most of the operating lease agreements contain renewal clauses that enable the Agency to extend the terms of the leases at the end of the original terms. Some of the agreements have escalation clauses based on a fixed percentage increase or a fixed amount increase applied at prespecified intervals or dates in the future. No lease agreements contain purchase options.

18.8 The host Governments and some charitable organizations in the fields in which UNRWA operates provide the use of land for no or nominal rent to UNRWA for the benefit of Palestine refugees. The land is used to build schools, health centres or other UNRWA facilities that are administered by the Agency or in which it provides services.

18.9 These in-kind donations for the use of land have been valued at a fair value of $3.887 million in 2017 (compared with $3.888 million in 2016) and are included in non-exchange revenue and occupancy costs. The fair value for these in-kind donations was calculated using recently negotiated commercial leases that UNRWA holds for land. The average rental return on the capital value of land for commercial leases was applied to the capital value of land, as assessed by external surveyors, provided to UNRWA at no or nominal value.

18.10 The Agency received revenue of $4.297 million from sublease payments in 2017 (compared with $4.744 million in 2016). All subleases are cancellable and contain no contingent lease payments.

Finance lease commitments

18.11 Leasing agreements which transfer to the Agency substantially all the risks and rewards of ownership of an asset are treated as finance leases. Assets acquired under finance leases are capitalized and depreciated over the shorter of lease term or useful life.

18.12 The Agency has one finance lease starting in 2017 for medical equipment used in clinics. The present and future values are as follows:

(Thousands of United States dollars)

	2017		*2016*	
	Present value	*Future value*	*Present value*	*Future value*
Not later than one year	266	278	–	–
Later than one year and not later than five years	885	905	–	–
Later than five years	–	–	–	–
Ending balance	**1 151**	**1 183**	–	–

18.13 The difference between the future value of minimum lease payments and their present value represents the discount on the lease obligations using the HSBC term deposit rate of 1.26 per cent.

Note 19
Revolving loan fund

19.1 Restricted contributions received for on-lending purposes are transferred to the revolving loan fund for both the Microfinance Department and the microcredit community support programme. The revolving loan fund is included as a component of the Microfinance Department and microcredit community support programme reserve in the statement of changes in net assets/equity.

19.2 The composition of the revolving loan fund as at 31 December 2017 and 31 December 2016 was as follows:

(Thousands of United States dollars)

	31 December 2017	*31 December 2016*
Microfinance Department	25 271	24 324
Microcredit community support programme	3 590	3 595
Total	**28 861**	**27 919**

Note 20
Cash contributions revenue

Total cash contributions revenue by source received in 2017 and 2016 was as follows:

(Thousands of United States dollars)

	2017	*2016*
Governments	930 458	965 960
Intergovernmental organizations	189 235	159 286
Non-governmental organizations and other entities	14 331	36 284
United Nations organizations	48 945	46 327
Sundry	1 170	1 630
Total	**1 184 139**	**1 209 487**

Note 21
In-kind contributions revenue

Total in-kind contributions revenue by source received in 2017 and 2016 was as follows:

(Thousands of United States dollars)

	2017	*2016*
Governments	16 768	27 451
Non-governmental organizations and other entities	4 488	3 565
United Nations organizations	2 045	1 513
Total	**23 301**	**32 529**

Note 22
Interest on loans

Interest on loans represents interest charged on loans issued by the Microfinance Department and the microcredit community support programme throughout the five fields. The composition of interest on loans in 2017 and 2016 was as follows:

(Thousands of United States dollars)

	2017	*2016*
Microfinance Department	11 138	10 333
Microcredit community support programme	311	299
Total	**11 449**	**10 632**

Note 23
Interest revenue

Interest revenue is recognized over the period during which it is earned. The amount of interest on bank deposits is $2.626 million in 2017 (compared with $0.631 million in 2016).

Note 24
Currency exchange (loss)/gain

Currency exchange gains or (losses) are realized and unrealized exchange gains or (losses) on the translation of non-United States dollar-denominated balances and transactions during the year.

(Thousands of United States dollars)

	2017	*2016*
Realized currency exchange rate gain	1 905	1 824
Unrealized currency exchange rate (loss)	3 972	(3 328)
Accounts receivable income realized exchange rate (loss)	339	(467)
Total	**6 216**	**(1 971)**

Note 25
Indirect support cost recovery

The Agency is entitled to a specific percentage of the expenditure incurred on certain projects in accordance with donor agreements. Indirect support cost recoveries are recognized as income and represent the recovery of indirect costs incurred by the Agency in implementing the related projects. The total indirect support cost recovery from projects revenue for 2017 is $54.569 million (compared with $53.522 million in 2016). The total revenue from indirect support cost is $54.749 million (compared with $53.502 million in 2016), offset by the cost of projects in 2017 by $54.569 million (compared with $53.342 million in 2016), and the remaining amount of indirect support cost recovery is $0.180 million in 2017 (compared with $0.180 million in 2016) from Junior Professional Officer programmes.

Note 26
Miscellaneous revenue

26.1 Miscellaneous revenue comprised the following:

(Thousands of United States dollars)

	2017	*2016*
Canteen lease revenue	4 297	4 744
Sundries	5 310	5 287
Profit on income-producing activities	106	–
Reimbursed Provision Revenue	1 395	3 686
Income received from United Nations agencies	70	11
Refunds to donors	(267)	(1 336)
Total	**10 911**	**12 392**

26.2 Refunds to donors represent amounts that have been recorded as revenue but are required to be refunded to donors in accordance with the terms of donor agreements.

Note 27
Wages, salaries and employee benefits

Wages, salaries and employee benefits consisted of the following:

(Thousands of United States dollars)

	2017	*2016*
International staff	46 144	43 996
Area staff		
Basic salaries, allowances and benefits	578 921	525 073
Area Staff Provident Fund contributions	61 635	57 339
Health-related expenses	9 282	8 588
Total	**695 982**	**634 996**

Note 28
Supplies and consumables

The composition of supplies and consumables in 2017 and 2016 was as follows:

(Thousands of United States dollars)

	2017	*2016*
Basic commodities	76 870	79 142
Clothing supplies	2 421	6 454
Fresh food	3 511	5 040
Medical supplies	21 933	24 449
Miscellaneous supplies	19 746	21 114
Sport supplies	175	377
Textbooks and library books	5 247	6 760
Transportation supplies	10 825	8 341
Total	**140 728**	**151 677**

Note 29
Occupancy, utilities and premises costs

Occupancy, utilities and premises costs in 2017 and 2016 included the following:

(Thousands of United States dollars)

	2017	*2016*
Rental of premises	7 897	8 178
Maintenance of premises	9 534	9 684
Utilities	6 376	6 355
Total	**23 807**	**24 217**

Note 30
Contracted services

The composition of services expenses in 2017 and 2016 was as follows:

(Thousands of United States dollars)

	2017	*2016*
Construction and equipment	31 136	63 067
Contractual costs	14 383	16 191
Hospital costs	26 172	21 625
Miscellaneous, including accruals	1 417	6 485
Consultancy costs	17 293	15 099
Demurrage and port charges	11 433	13 339
Training costs	2 636	5 041
Travel	3 751	3 161
Total	**108 221**	**144 008**

Note 31
Subsidies

31.1 Subsidies represent amounts paid to Palestine refugees for the following:

(Thousands of United States dollars)

	2017	*2016*
Cash subsidies to beneficiaries	210 886	192 270
Patient subsidies	4 553	5 975
Subsidies for the construction and repair of shelters	49 415	73 778
Subsidies to third party	21 487	35 085
Total	**286 341**	**307 108**

31.2 Cash subsidies paid to beneficiaries provide selective cash assistance for conflict-affected Palestine refugees in the Gaza Strip and the Syrian Arab Republic, food security and rent subsidies, whereas subsidies paid to third parties consist of cash disbursed by UNRWA to the community and other parties for activities that will improve the lives of the refugees.

Note 32
Provisions and write-offs

The composition of provisions and write-off expenses in 2017 and 2016 was as follows:

(Thousands of United States dollars)

	2017	*2016*
Provisions and write-off expenses on accounts receivable	2 887	13 969
Provisions and write-off expenses on contributions receivable	12 792	1 920
Provisions and write-off expenses on loans receivable	1 302	970
Write-off overstated receivables and others	1 361	–
Total	**18 342**	**16 859**

Note 33
Segment reporting

33.1 A segment is a distinguishable activity or group of activities for which it is appropriate to separately report financial information. Segment information is provided on several bases to reflect UNRWA objectives and activities. Full segment reporting is provided for (a) sources of fund segments; segment expense reports are provided for (b) human development goals, (c) programmes and (d) geographical locations.

(a) Sources of funds

33.2 A fund is an accounting entity established to account for transactions relating to a specified purpose or objective. Funds are segregated for the purpose of conducting specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The financial statements are prepared on a fund accounting basis, showing at the end of the period the aggregated position of all funds. Fund balances represent the accumulated residual amount of revenue and expenses.

33.3 The Agency's activities are financed through five fund groups. Each group of funds has differing parameters for utilization of the revenue.

33.4 The unearmarked fund is part of the UNRWA programme budget and is the principal means of financing the Agency's recurrent activities. The fund enables the Agency to meet obligations from authorized appropriations and is financed primarily by voluntary contributions and in-kind donations from Governments, intergovernmental and non-governmental bodies and host authorities.

33.5 The earmarked fund is also part of the UNRWA programme budget but its use is restricted to specific activities (e.g. direct support, cash and food assistance provided through the social safety net programme) that are undertaken during a defined time period within a defined budget.

33.6 The Microfinance Department fund is used to provide credit for enterprise activities, household consumption and housing needs that will improve the quality of life of householders and small-business owners and will help to sustain jobs, reduce poverty, empower women and provide income-generating opportunities for Palestine refugees.

33.7 Emergency appeal funds are used to address emergency needs through the delivery of emergency relief, for example, food aid, shelter and medical supplies. Funds are raised mainly through the consolidated appeals process and are to be utilized during specified time periods. Pursuant to implementation of the new enterprise resource planning system, emergency appeals funds for the Syrian Arab Republic were internally reclassified from the earmarked projects segment to the earmarked emergency appeals segment. This is also in line with donor reporting effective 2016.

33.8 Project funds are used to meet capital expenditure needs (e.g. school and health centre construction) or development needs to improve or supplement existing programmes and systems (e.g. environmental health improvement). Projects are undertaken to meet a specific objective, and contributions are time-bound and earmarked for specified purposes.

(b) Human development goals

33.9 As part of its planning approach, UNRWA has four human development goals to provide it with direction in fulfilling its mission of helping Palestine refugees, with the aim of accomplishing the goals with efficient and effective governance. Fifteen strategic objectives that guide UNRWA core activities are grouped into the four human development goals, as follows:

- A long and healthy life, including the objectives of: (a) ensuring universal access to quality, comprehensive primary health care; (b) protecting and promoting family health; and (c) preventing and controlling diseases;
- Acquired knowledge and skills, including the objectives of: (a) ensuring universal access to and coverage of basic education; (b) enhancing education quality and outcomes against set standards; and (c) improving access to education opportunities for learners with special education needs;
- A decent standard of living, including the objectives of: (a) reducing abject poverty; (b) mitigating the effects of emergencies (both small-scale family and national crises) on individuals; (c) offering inclusive financial services and increased access to credit and savings facilities, especially for vulnerable groups such as women, youth and the poor; (d) improving employability; and (e) improving the urban environment through sustainable camp improvement and the upgrading of substandard infrastructure and accommodation;
- Human rights enjoyed to the fullest possible extent, including the objectives of: (a) ensuring that service delivery meets the protection needs of beneficiaries, including vulnerable groups; (b) safeguarding and advancing the rights of Palestine refugees by promoting respect for human rights, international humanitarian law and international refugee law; (c) strengthening the capacity of refugees to formulate and implement sustainable social services in their communities; and (d) ensuring that Palestine refugee registration and determination of eligibility for UNRWA services are carried out in accordance with relevant international standards;
- In addition to the above-mentioned goals, UNRWA aims for effective and efficient governance through providing overall direction and control and ensuring both efficient operations and effective financial and risk management.

(c) Programme

33.10 The Agency is functionally organized under four core programmes that provide direct services to UNRWA beneficiaries, led by executive direction and supported by support departments:

- The education programme provides basic and secondary education for learners with special educational needs and vocational and technical training. The programme has 10 vocational training centres, which provide skills training in such fields as pharmacy, plumbing, carpentry, business and computing. The programme offers in-service training and development for teachers to develop their professional qualifications and pre-service training for new teachers. The programme also encourages the progression of students to higher education by means of scholarships;
- The health programme provides a network of primary health-care facilities and mobile clinics that provide the foundation of its health services, offering preventive general medicine and specialist care services tailored for each stage of life. Although the programme is focused mainly on primary health care, it also helps Palestine refugees to gain access to secondary and tertiary health-care services. The environmental health subprogramme controls the quality of drinking water, provides sanitation and carries out vector and rodent control in refugee camps;
- The infrastructure and camp improvement programme addresses the deteriorating living conditions of Palestine refugees in camps. The programme promotes environmentally and socially sustainable neighbourhoods. UNRWA repairs shelters and, in coordination with the host Governments, plans for rehousing and reconstruction projects after demolitions caused by armed conflict or other emergencies. The programme manages the construction and maintenance of all UNRWA facilities and installations;
- The relief and social services programme provides a range of direct and indirect social protection services for Palestine refugees. The relief services subprogramme provides social safety-net assistance that includes basic food support, cash subsidies and additional family income supplements for the most vulnerable Palestine refugees caught in the cycle of abject poverty. It also provides selective cash assistance, such as one-off cash grants for basic household needs in family emergencies. In addition, the subprogramme provides direct aid during emergencies caused by violence and political unrest, along with shelter rehabilitation in coordination with other programmes. The social services subprogramme promotes community-based action that enables particularly vulnerable refugees to become more self-reliant. The programme particularly addresses the needs of women, refugees with disabilities, young people and the elderly. It also helps vulnerable refugees through its microcredit programme, which is managed by community-based organizations;
- Executive direction manages all aspects of the Agency's work to ensure efficient implementation of UNRWA mandates to provide services and humanitarian assistance to Palestine refugees, and to other persons that it is mandated to serve in accordance with relevant General Assembly resolutions, and to maintain the commitment of the international community to the social and economic well-being of Palestine refugees. Executive direction responsibilities include the effective management of oversight, legal support, fundraising, advocacy and outreach to external interlocutors;

- The support departments assist the Commissioner-General in the smooth running of the Agency and ensure effective management of personnel and financial resources, administrative services and internal communication;
- The Protection Division was established at UNRWA headquarters in Amman to provide strategic direction of, and coordination to, the implementation of the diverse protection activities across the Agency. In accordance with the Agency's mandate, the aim of UNRWA protection activities is to respond to the protection needs of Palestine refugees amid increasing conflict and displacement in the region. UNRWA applies a holistic approach to protection. This includes an "internal" dimension focused on realizing the rights of Palestine refugees in and through the Agency's service delivery programmes, and an "external" dimension involving engagement with relevant duty bearers to ensure respect for Palestine refugee rights. The Protection Division, through its thematic experts, covers the areas of protection mainstreaming, child protection, gender and gender-based violence, disability and international protection.

(d) Geographical locations

33.11 Although UNRWA goals and services are delivered primarily within a programme approach, the Agency's operations are managed on a field basis. In accordance with the mandate set out by the General Assembly as the Agency's parent organ, UNRWA operates in five fields: Jordan, Lebanon, the Syrian Arab Republic, the Gaza Strip and the West Bank. Each field provides similar services but is distinctive to some extent, owing to the particular political humanitarian and economic contexts in which it operates and the status and rights enjoyed by the Palestine refugees in it.

(e) Basis of pricing for inter-segment transfers and charges

33.12 Indirect support costs are incurred by UNRWA in support of the implementation of its non-regular budget activities that cannot be directly attributed to specific activities, projects or programmes. Programme support costs represent administrative, managerial, logistical and other support costs, including costs relating to staff recruitment, budgetary and financial control, information and communications technology support, and actions in respect of procurement transport and warehousing.

33.13 Indirect support costs represent a recovery of project expenditures to ensure that non-regular activities do not constitute financial costs in terms of the Agency's regular budget.

33.14 Indirect support costs at a uniform standard rate of 11 per cent are usually charged against all contributions for non-regular budget activities except for those of the Microfinance Department, with respect to which a standard rate of 6 per cent is charged on the Department's running costs, excluding staff costs.

Segment reporting by fund: financial position as at 31 December 2017

(Thousands of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	Programme budget	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Assets							
Current assets							
Cash and cash equivalents	9 937	40 018	12 154	104 317	104 997	–	271 423
Short-term loans receivable	–	1 366	24 312	–	–	–	25 678
Contributions receivable	16 109	–	–	14 674	10 161	–	40 944
Accounts receivable	18 232	3 577	45	1 048	1 172	(593)	23 481
Other current assets	3 559	20	658	68	4 369	–	8 674
Operational Microfinance Department account with UNRWA	–	587	–	–	–	(587)	–
Inventories	22 857	4 370	–	33 189	28 043	–	88 459
Non-current assets							
Other non-current assets	96	–	–	–	–	–	96
Long-term loans receivable	–	1 358	3 139	–	–	–	4 497
Property, plant and equipment	476 541	534	185	3 496	19 901	–	500 657
Intangible assets	21 857	–	218	–	–	–	22 075
Total assets	**569 188**	**51 829**	**40 711**	**156 792**	**168 643**	**(1 180)**	**985 984**
Liabilities							
Current liabilities							
Payables and accruals	81 602	3 915	505	14 038	10 186	(63)	110 182
Employee benefits	83 641	–	417	–	–	35	84 094
Operational Microfinance Department account with UNRWA	–	–	587	–	–	(587)	–
Other current liabilities	3 995	–	–	3 886	96	–	7 977
Advance contributions	689	–	–	–	–	(593)	96
Non-current liabilities							
Employee benefits	726 854	–	4 174	–	–	–	731 028
Other non-current liabilities	885	–	9 875	–	–	–	10 760
Total liabilities	**897 666**	**3 915**	**15 558**	**17 924**	**10 282**	**(1 208)**	**944 137**
Net assets/equity	**(328 478)**	**47 915**	**25 153**	**138 868**	**158 361**	**28**	**41 847**
Revaluation and other reserves	(65 466)	–	–	–	–	708	(64 758)
Capital reserve: microcredit community support programme and Microfinance Department	–	3 590	25 271	–	–	–	28 861
Accumulated surplus/(deficit)	(263 012)	44 325	(118)	138 868	158 361	(680)	77 744
Total net assets/equity	**(328 478)**	**47 915**	**25 153**	**138 868**	**158 361**	**28**	**41 847**

Segment reporting by fund: financial performance as at 31 December 2017

(Thousands of United States dollars)

	Unearmarked activities	*Earmarked activities*					
	Programme budget	*Restricted funds*	*Microfinance Department*	*Emergency appeals*	*Projects*	*Inter-fund balances*	*Total*
Revenue							
Cash contributions	624 913	–	–	351 017	208 209	–	1 184 139
In-kind contributions	–	14 891	–	4 634	3 776	–	23 301
Interest on loans	–	311	11 138	–	–	–	11 449
Interest on bank deposits	2 406	–	220	–	–	–	2 626
Other revenue							
Foreign currency exchange gain	5 633	(292)	216	227	432	–	6 216
Indirect support cost recovery	53 619	1 130	–	–	–	(54 569)	180
Financial derivative gain	70	–	–	–	–	–	70
Miscellaneous revenue	3 449	6 888	698	(4)	(255)	135	10 911
Total revenue	**690 090**	**22 928**	**12 272**	**355 874**	**212 163**	**(54 434)**	**1 238 892**
Expenses							
Wages, salaries and employee benefits	607 752	1 330	5 118	60 215	21 434	132	695 982
Supplies and consumables	33 787	12 536	280	88 380	5 745	–	140 728
Occupancy, utilities and premises costs	12 233	3 045	397	3 564	4 568	–	23 807
Contracted services	35 450	7 812	1 955	22 534	40 378	92	108 221
Indirect support costs	3 555	–	–	38 540	12 474	(54 569)	–
Subsidies	22 973	1 516	–	189 330	72 522	–	286 341
Depreciation	35 838	–	168	–	–	–	36 006
Provisions and write-offs	20 548	(3 488)	1 282	–	–	–	18 342
Loss on disposal	275	–	–	6	8	–	289
Impairment of property, plant and equipment	728	–	–	–	–	–	728
Total expenses	**773 139**	**22 751**	**9 200**	**402 568**	**157 130**	**(54 345)**	**1 310 444**
Surplus/(deficit) for the year	**(83 049)**	**177**	**3 072**	**(46 694)**	**55 033**	**(89)**	**(71 552)**

Segment reporting by human development goal: expenses as at 31 December 2017

(Thousands of United States dollars)

	Long and healthy life	*Acquired knowledge and skills*	*Decent standard of living*	*Human rights enjoyed to the fullest*	*Effective and efficient governance and support in the Agency*	*Unallocated human development goal*	*Inter-fund balances*	*Total*
Wages, salaries and employee benefits	90 781	428 569	50 413	10 934	115 152	–	132	695 982
Supplies and consumables	29 240	13 980	88 076	890	8 542	–	–	140 728
Occupancy, utilities and premises costs	3 965	8 439	4 197	441	6 765	–	–	23 807
Contracted services	41 704	9 099	26 256	3 400	27 670	–	92	108 221
Indirect support costs	5 420	7 845	34 224	1 006	6 074	–	(54 569)	–
Subsidies	4 607	1 301	266 246	1 796	12 391	–	–	286 341
Depreciation	4 740	16 038	2 688	415	12 125	–	–	36 006
Provisions and write-offs	–	–	1 320	–	17 022	–	–	18 342
Loss on disposal	130	17	10	–	132	–	–	289
Impairment of property, plant and equipment	134	593	–	–	1	–	–	728
Total	**180 721**	**485 880**	**473 430**	**18 882**	**205 874**	**–**	**(54 345)**	**1 310 444**

Segment reporting by programme: expenses as at 31 December 2017

(Thousands of United States dollars)

	Education	*Health*	*Infrastructure and camp improvement*	*Relief and social services*	*Protection Division*	*Support department*	*Executive direction*	*Inter-fund balances*	*Total*
Wages, salaries and employee benefits	439 766	82 499	31 119	26 922	3 898	60 876	50 770	132	695 982
Supplies and consumables	16 353	26 149	2 405	88 385	631	6 259	546	–	140 728
Occupancy, utilities and premises costs	10 299	3 637	857	2 113	190	5 603	1 108	–	23 807
Contracted services	11 710	28 503	24 255	9 275	2 777	21 851	9 758	92	108 221
Indirect support costs	7 424	5 192	2 226	33 438	664	2 466	3 159	(54 569)	–
Subsidies	3 794	4 633	6 070	267 856	1 589	339	2 060	–	286 341
Depreciation	18 031	3 413	1 807	993	71	10 869	822	–	36 006
Provisions and write-offs	–	–	–	1 320	–	17 022	–	–	18 342
Loss on disposal	18	34	89	16	–	98	34	–	289
Impairment of property, plant and equipment	593	82	52	–	–	1	–	–	728
Total	**507 988**	**154 142**	**68 880**	**430 318**	**9 820**	**125 384**	**68 257**	**(54 345)**	**1 310 444**

Segment reporting by geographical location: expenses as at 31 December 2017

(Thousands of United States dollars)

	Gaza field	*Lebanon field*	*Syrian Arab Republic field*	*Jordan field*	*West Bank field*	*Headquarters*	*Inter-fund balances*	*Total*
Expenses								
Wages, salaries and employee benefits	280 302	82 635	56 768	126 801	113 726	35 617	132	695 982
Supplies and consumables	97 483	5 461	21 761	10 202	5 381	440	–	140 728
Occupancy, utilities and premises costs	4 278	3 769	1 663	8 490	4 666	941	–	23 807
Contracted services	19 351	49 213	8 546	8 016	8 491	14 512	92	108 221
Indirect support costs	24 050	4 874	19 169	2 042	4 036	398	(54 569)	–
Subsidies	89 165	39 811	115 746	16 810	23 153	1 656	–	286 341
Depreciation	15 119	3 267	1 720	2 906	5 251	7 743	–	36 006
Provisions and write-offs	(347)	38	10	612	(1 401)	19 430	–	18 342
Loss on disposal	157	14	–	–	27	91	–	289
Impairment of property, plant and equipment	–	–	728	–	–	–	–	728
Total	**529 558**	**189 082**	**226 111**	**175 879**	**163 330**	**80 828**	**(54 345)**	**1 310 444**

Note 34
Presentation of budget information

34.1 The budget figures for UNRWA are determined on a modified cash basis and disclosed in the statement of comparison of budget and actual amounts (statement V) as the original budget derived from the 2016–2017 programme budget (Blue Book). The UNRWA budget includes the core requirements funded through the programme budget, as endorsed by the General Assembly, which, if exceeded, requires submission to the General Assembly; in-kind donations; and the project budget, where allocation varies based on donor response.

34.2 As compared with the Blue Book budget, the programme budget (formerly referred to as the General Fund budget), made available at the beginning of each financial period, reflects reduced requirements based on the end-of-year income forecast and acceptable cash shortfall. However, for the project's budget, resources are made available when contributions are received and/or, on an exceptional basis, when pledges are confirmed by donors, by means of a signed agreement, for approved project proposals.

34.3 With the adoption of IPSAS, UNRWA internally adopted an accrual budgeting system based on IPSAS. However, in compliance with the Financial Rules and Regulations, the final budget set out in financial statement V still refers to a modified cash basis budget and is used for comparison with the actual amounts.

34.4 The UNRWA budget encompasses three main entities (funding portal types): the programme budget, funded mainly by voluntary contributions, along with 155 international staff funded through the United Nations regular budget from assessed contributions; an in-kind donations budget; and the project's budget.

34.5 The Agency's budget structure follows a results-based budgeting format, as reflected in the annual operational plans, which are derived from the medium-term strategy for the period 2016–2021.

34.6 The budgets and accounts of UNRWA are arranged on different accounting bases. The statement of financial position, the statement of financial performance, the statement of changes in net assets and the statement of cash flow are prepared on a full accrual basis, using a classification based on the nature of expenses in the statement of financial performance, whereas the statement of comparison of budget and actual amounts (statement V) is prepared on a modified cash basis of accounting.

34.7 As required under IPSAS 24, the actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the actual amounts presented in the financial statements, identifying separately any basis, timing and entity differences. There may also be differences in formats and classification schemes adopted for the presentation of the financial statements and the budget.

34.8 Basis differences occur when the approved budget is prepared on a basis other than the accounting basis, as stated in paragraph 34.6 above.

34.9 Timing differences occur when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNRWA for purposes of comparison of budget and actual amounts.

34.10 Entity differences occur when the budget omits funds that are part of the entity for which the financial statements are prepared.

34.11 Presentation differences are due to differences in the format and classification schemes adopted for presentation of the statement of cash flow and the statement of comparison of budget and actual amounts.

34.12 Reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual amounts in the statement of cash flow (statement IV) for the period ended 31 December 2017 is presented below.

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total*
Actual amounts on a comparable basis (statement V)	832 691	104 460	–	937 151
Basis differences	170 931	(145 167)	(78)	25 686
Timing differences	–	–	–	–
Entity differences	(44 559)	2 850	1 019	(40 690)
Presentation differences	(917 949)	–	–	(917 949)
Actual amounts in the statement of cash flow (statement IV)	**41 114**	**(37 857)**	**941**	**4 198**

34.13 Open commitments, including open purchase orders and net cash flows from operating, investing and financing activities, are presented as basis differences. Revenue that does not form part of the statement of comparison of budget and actual amounts is reflected as presentation differences. Entity differences occur as the approved budget, as noted above, includes the programme budget, the in-kind donations budget and the project's budget. The cash flow statement also includes the emergency appeals fund, the Microfinance Department fund and the earmarked fund of the programme budget.

34.14 Budget amounts have been presented on a classification based on the nature of expenses in accordance with the approved 2016–2017 programme budget, as recommended by the Advisory Committee on Administrative and Budgetary Questions and endorsed by the General Assembly.

(Thousands of United States dollars)

	Total expenses
Actual amounts on a comparable basis (statement V)	937 151
Basis differences	8 491
Timing differences	–
Entity differences	364 802
Actual amounts in the statement of financial performance (statement II)	**1 310 444**

Explanations of material differences

34.15 Explanations of material differences between the original budget and the final budget, and between the final budget and the actual amounts, are presented below.

Original and final budgets (income and expense/capital expenditure)

34.16 The original budget of expenditure is the budget as published in the Blue Book, while the final budget of expenditure is the approved 2017 budget allocation at year-end.

34.17 The 2017 programme budget, as reflected in the Blue Book for 2016–2017, amounted to $964.1 million (modified cash basis). This is disclosed in financial statement V as "original" budget. On a modified cash basis, the final 2017 programme budget was $1,143.0 million, representing an increase of $178.9 million, or 18.6 per cent. This is disclosed in financial statement V as "final" budget. The $178.9 million is a reflection of the increase in the final budget owing mainly to an increase in the final projects budget from $189.3 million by $188.6 million, including restricted funds (earmarked projects), which was partially offset by the decrease in the final programme budget from $774.8 million to $727.4 million (including in-kind).

Utilization of the budget

34.18 The variation in the budgetary utilization of the different budget cost components is due to various factors, such as management actions to reduce the cash shortfall, the depreciation of the Israeli sheqel, compared with the budgeted exchange rate, improved alignment of cost recovery, cash and food distribution from the social safety net programme, increase in salaries in the Occupied Palestinian Territory, and other budget reserves. The utilization rate against the key various cost components rates is as follows:

- *Staff costs*. Implementation rate is 96.1 per cent. The underutilization of $23.7 million is due to: (a) a high vacancy rate for international staff (funded by assessed contributions) and no commitment of staff costs in the new enterprise resource planning system; (b) underspending under fixed-term area staff, daily paid and limited duration contracts by $11.3 million, owing to management actions adopted to bridge the cash shortfall under the programme budget; and (c) the severance cash payout was underspent by $5.2 million, owing to retirements that are yet to be paid in 2018 on account of a difference in timing and a difference in the number of staff forecast to retire at the age of 60;

- *Supplies*. Implementation rate is 94.8 per cent. The underutilization of $3.6 million is due to timing variance;
- *Maintenance of premises and equipment*. Implementation rate is 72.5 per cent. The underspending of $45.7 million is due to the recent receipt of donations that were allocated at year-end 2017 but carried forward to 2018;
- *Training, travel, administrative services and consultancy*. Implementation rate is 79.5 per cent. The underutilization is due to continuous management actions adopted to meet the cash shortfall under the programme budget;
- *Hospital and miscellaneous services*. Implementation rate is 90.6 per cent. The underspending is due to projects related to service purchase orders yet to be implemented in the next financial period, in line with the projects' lifespan, and extended hospital contracts;
- *Subsidies to hardship cases, subsidies to patients and third parties*. The implementation rate is 91.5 per cent. The underspending of cash subsidies is due to timing variance;
- *Reserves*. The reserves reflect the impact of management actions and improved alignment of cost recovery with emergency appeal projects, chiefly under the emergency appeal for the Syrian Arab Republic.

Note 35
Going concern

35.1 The accompanying financial statements have been prepared on the assumption that the Agency will continue to operate as a going concern. As shown in the financial statements, however, the Agency experienced a net deficit of $71.552 million in 2017 compared with a net deficit of $42.076 million in 2016. The factors set out below provide evidence as to the continuing nature of the Agency as a going concern.

35.2 The Agency has total net assets of $41.847 million in 2017 (compared with $142.627 million in 2016) and total current assets exceed total current liabilities by $256.311 million in 2017 (compared with $295.037 million in 2016). The balance of cash and cash equivalents held by the Agency as at 31 December 2017 was $271.423 million (compared with $267.225 million in 2016). In addition, as described in note 18, the Agency, as at 31 December 2017, had contingent assets in the amount of $661.511 million (compared with $598.834 million as at 31 December 2016), relating to contributions from donors for which the agreements had been signed but the criteria for revenue recognition had not yet been met.

35.3 With the exception of 155 international staff posts funded by the General Assembly through the regular budget of the United Nations, the Agency's operations are funded by voluntary contributions from Member States and other donors. The General Assembly votes in favour of key resolutions supporting UNRWA operations every year and for the renewal of the Agency's mandate every three years. Additionally, the Advisory Commission of UNRWA, which brings together the main donors as well as hosts of UNRWA operations, reaffirms its support for the Agency at a semi-annual meeting. UNRWA is also endeavouring to widen its donor base with potential supporters on all continents, with a focus on regional and emergency donors. The Agency is at the same time engaged in developing funding from the private sector.

35.4 The financial insecurity of UNRWA has been a matter of long-standing, serious concern to the General Assembly. In an effort to decisively address the Agency's financial situation, on 6 December 2016, the General Assembly, in paragraph 32 of its resolution 71/93, requested the Secretary-General to facilitate broad consultations with Member States, notably host countries, members of the Advisory Commission and other donors, as well as with international financial institutions, so as to explore all potential ways and means, including through voluntary and assessed contributions, to ensure that the Agency's funding was sufficient, predictable and sustained for the duration of its mandate. As recommended by the Secretary-General in his report to the General Assembly of 30 March 2017 on the operations of UNRWA, the Commissioner-General of UNRWA continues to take forward the recommendations set out in that report in order to continue operating for the duration of its mandate.

35.5 Funding the operations of the unearmarked activities of the programme budget continues to present the greatest challenge to the Agency in recent years. As reflected in the segment reporting by fund, unearmarked activities incurred a deficit of $83.049 million as at 31 December 2017 (compared with a deficit of $48.342 million as at 31 December 2016). The net assets of the programme budget reflected a net deficit of $328.479 million as at 31 December 2017 (compared with a net deficit of $255.333 million as at 31 December 2016). The Agency is actively seeking contributions to support its unearmarked activities in order to sustain core operations.

Note 36
Related parties

Related parties for UNRWA include:

(a) The Area Staff Provident Fund, as it is controlled by the Agency;

(b) The United Nations Secretariat, given that it exercises significant influence over UNRWA because, inter alia, the salaries, related expenditures and liabilities of the majority of the Agency's international staff, including its key management personnel, are paid from the regular budget of the United Nations;

(c) Key management personnel, who include the members of the Management Committee, have authority with respect to planning, directing and controlling the activities of the Agency (or significant parts thereof). The major classes of key management personnel are Commissioner-General/Deputy Commissioner-General and field/headquarters directors. The aggregate remuneration paid to key management personnel includes net salaries, post adjustment, entitlements such as allowances, grants and subsidies, and employer pension and health insurance contributions. Key management personnel remuneration incorporates housing allowances and representation allowances paid as part of salaries, despite the presence of a representative aspect to these allowances. Transactions conducted with key management personnel in 2017 are summarized as follows:

(Thousands of United States dollars)

Number of individuals	*Total remuneration*	*Outstanding advances against entitlements*	*Outstanding loans*	*Number of individuals*
Key management personnel	4 260	94	–	19

(d) No close family members of key management personnel were employed by the Agency during the year;

(e) Advances are those made against entitlements in accordance with UNRWA area and international staff rules and regulations. Advances against entitlements are widely available to all UNRWA staff.

Note 37
Subsequent events

In 2018, a key donor withheld and will possibly reduce UNRWA funding drastically below past levels. The Commissioner-General is extensively engaging with the traditional and new donors to bridge the gap and has appointed a special global fundraising task force to mobilize more funding for the Agency. "Dignity is priceless" is a global initiative, and the task force is expanding the traditional donor base to private enterprises and other areas of funding.

Note 38
Date and approval

The financial statements and notes were certified as correct and approved by the Director of Finance and were issued on 31 March 2018.